Middle East Diversification and Defense Market Assessment

A Comprehensive Guide For Entry into Overseas Markets

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The end of the Cold War and the resulting reductions in defense spending have presented many challenges for U.S. industry. The Department of Commerce, through the Bureau of Export Administration, has developed a comprehensive national defense diversification program to provide assistance to U.S. industry in this period of transition

Providing current market information on commercial and defense business opportunities abroad is an important component of our defense diversification program. This information should assist U.S. firms in their market and production diversification efforts.

Therefore, I am pleased to introduce the Middle East Diversification and Defense Market Assessment Guide. As with the first two editions covering Pacific Rim and European markets, this guide provides a wide variety of information concerning trade opportunities, government procurement processes, country-specific business practices and important points of contact in the selected countries of the Middle East. The fourth edition will focus on selected nations of the Western Hemisphere.

The Department of Commerce is deeply committed to assisting U.S. firms in their efforts to meet the challenges of the post-Cold War era. We hope that this series of guides will help U.S. firms investigate the many business opportunities that exist in the global marketplace. For additional information concerning these publications and other defense diversification programs, please contact the Office of Strategic Industries and Economic Security at (202)482-4695.

William A. Reinsch

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John S. Isbell
Editor

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INTRODUCTION

The countries of the Middle East have undergone many changes since the end of the Cold War. Traditional political and military alliances between the Middle Eastern nations and the superpowers have disintegrated. Major events such as the Persian Gulf War and the recent movement toward a lasting peace among Israel and its Arab neighbors have further shifted economic, security, and political ties within the region and with the United States. This new era of relative stability and strengthening economic growth will provide a wide variety of commercial opportunities for U.S. firms.

The strategic alliances within the region built by the United States to check Iraqi aggression during Desert Shield/Desert Storm as well as U.S. efforts to achieve an enduring peace in the Middle East have yielded important results. The superiority of U.S. and allied equipment during the Persian Gulf War has fostered a positive environment for U.S. defense firms. Many coalition partners such as Saudi Arabia, Egypt, and Kuwait continue to re-build and upgrade their defense forces which may lead to increased defense trade opportunities for U.S. industry.

The Middle East Diversification and Defense Market Guide is intended to provide current information to U.S. firms interested in dual-use and/or defense trade opportunities in this established and diversified region. **Section I, Getting Started**, provides important information concerning U.S. Government policies and organizations involved in trade with the Middle East. This section includes guidance provided in the Defense Department's Selling to the Allies publication. **Section II, Country Profiles**, provides specific information about selected Middle Eastern nations and includes the following topic areas:

The ***Overview*** section provides a brief description of each nation's economy, including growth rates and the government's economic development plans, where available. This section provides a concise picture of the macro-economic situation in each country.

The ***Defense Industry Environment*** section consists of a brief discussion of each nation's defense budget, the armed forces' defense plan, and the structure of the domestic defense industry. This section also provides information, where available, regarding foreign suppliers in order to assess the competitive environment within the defense market.

Within the ***Defense Opportunities*** section, general requirements for defense equipment as well as specific trade leads are discussed. In addition to new systems, information regarding upgrades and repair opportunities are discussed. This section encompasses a wide variety of defense trade opportunities for U.S. defense firms of all sizes.

In the ***Defense Procurement Process*** section, the defense contracting process of the country profiled is explained and includes points of contact for the agencies and organizations involved in this area.

The ***Diversification/Commercial Opportunities*** section highlights dual-use and/or commercial opportunities that exist in the countries profiled. Each of the industry sectors discussed are product areas that face growing demand and are titled "promising sectors" by the Commerce Department's Foreign Commercial Service.

Doing Business in... outlines the country-specific business practices necessary for successful business transactions in the country including information concerning specialized government regulations and practices that may be faced by U.S.

Lastly, the ***U.S. Government Points of Contact*** section provides useful Department of Commerce, State, and Defense points of contact located in the countries profiled that are able to assist U.S. firms interested in doing business in the Middle East.

The Middle East Diversification and Defense Market Assessment Guide, like its predecessors which focused on selected countries in the Pacific Rim and Europe, has been developed to provide assistance to U.S. defense firms of all sizes in their market and product diversification efforts. Follow-on editions will focus on selected countries in the Western Hemisphere and updated versions of the Pacific Rim and European guides.

THE DEPARTMENT OF COMMERCE'S NATIONAL DEFENSE CONVERSION PROGRAM

The Department of Commerce, through the Bureau of Export Administration (BXA) has developed a comprehensive assistance program for U.S. industry in response to the dramatic reduction of defense spending. This program, an important part of the Department's overall efforts in defense conversion, consists of four main areas: defense diversification seminars, a needs assessment program, international diversification market assessment guides and defense trade advocacy. The components of this strategy linked together provide a wide variety of short and long term assistance to address the immediate and emerging needs of the defense industrial base. Each program is briefly described in the sequence of addressing the short, medium and long-term needs of U.S. defense firms.

International Diversification and Defense Market Assessment Program: This program is structured to provide information that will address an immediate need to determine new markets for dual-use and defense products. In this way, the market assessment program offers current information to U.S. firms through the development of international diversification and defense market assessment guides. These guides provide a variety of information to U.S. manufacturers regarding non-traditional dual-use and defense markets in the Pacific Rim, Europe, the Middle East, and the Western Hemisphere. Each chapter within these guides offer comprehensive information on how to do business in targeted countries, as well as specific commercial and defense trade opportunities open to U.S. firms in these markets. These guides are designed for small U.S. businesses that are new to exporting. The market assessment program has been developed to help U.S. firms maintain revenue from alternative domestic or international markets which, in turn, will allow time to implement diversification or conversion programs.

Defense Trade Advocacy: The Bureau of Export Administration, with its strong historical relationships to both the Department of Defense and Department of State, is placed in an advantageous position to serve as an advocate for the U.S. defense industry in its efforts to successfully compete for overseas procurements. Within this role, BXA generates high level government-to-government advocacy on behalf of U.S. industry. The agency also serves as industry ombudsman in the interagency community, interjecting economic and competitiveness considerations as well as overall industry concerns into U.S. arms transfer determinations.

Defense Diversification Seminar Program: An integral part of the Commerce Department's national program, the diversification seminar series, while available to all firms, specifically targets small and medium size defense manufacturers. These seminars are designed to provide firms with the informational tools needed to take advantage of domestic as well as global business opportunities. Seminar topics areas include: technology transfer: accessing and commercializing federal R&D; federal, state and private sector financial assistance; international marketing assistance; marketing to the U.S. and state governments; and regulatory requirements

for defense exports. The first seminar program, called the 1994 Resource Matching Program was held in California and due to its success, BXA has expanded this program to reach defense firms in all areas of the U.S. that have been adversely impacted by defense cuts. In FY95, the California program was expanded to include seminars held in Arizona, New Mexico, Utah, Washington and Oregon. Concurrently, the Bureau of Export Administration launch its Eastern regional seminar program in the Northeast where seminar programs were held in Connecticut, Rhode Island, and Pennsylvania. Other expansion sites in FY97 include, Texas, Missouri, and Alabama. This program is crafted and specialized to meet the unique requirements of each state. The seminar program provides the information necessary for U.S. firms to begin the development of an appropriate diversification or conversion strategy.

Needs Assessment Program: The Bureau of Export Administration's Needs Assessment Program entails a longer term focus by providing specialized, firm-specific diversification assistance. Within this program, firms are requested to complete a short questionnaire which assesses their current diversification efforts as well as determining what kinds of assistance would be most useful. An interagency response team has been assembled which will then work with individual firms, providing a coordinated response to individual firms' needs. The team includes representatives from various agencies within the Department of Commerce, the Department of Energy's National Laboratories, the Export Import Bank, the Small Business Administration, the Department of Labor and various state agencies.

These four areas that make up the core of the Commerce Department's national defense conversion program can be effectively utilized by U.S. firms that are at virtually any phase of defense diversification or conversion. For additional information about these programs, please contact the following BXA office:

Office of Strategic Industries and Economic Security
Room 3876
U.S. Department of Commerce
Washington, D.C. 20230

Tel: (202) 482-4695
Fax: (202) 482-5650
e-mail: jisbell@bxa.doc.gov **or**
orji@bmpcoe.org

SECTION I:
GETTING STARTED

THE ROLE OF THE COMMERCIAL OFFICER AND THE COMMERCIAL SERVICE

The primary role of the Commercial Officer and the U.S. Commercial Service (CS) of the Department of Commerce is to assist U.S. companies in entering foreign markets. The CS offers a variety of market information and sales related services aimed at assessing a company's export potential, identifying markets, and selecting potential buyers and representatives abroad.

The Commercial Service is a worldwide network of export specialists located in 47 domestic offices and at U.S. Embassies in 77 countries. Under a strong Congressional and Executive Branch mandate to assist small and medium size firms to export and expand into foreign markets, the CS promotes U.S. commercial interests abroad.

International trade specialists located in the CS district offices throughout the United States are often the first stop for companies looking at foreign markets. Domestic offices can supply information and data about specific foreign markets, explain and provide a variety of specialized CS services, and assist in the export process. Some of the services available are briefly described below:

Agent Distributor Service

The Agent Distributor Service (ADS) identifies potential agents, distributors, and representatives in a foreign country. The U.S. company provides promotional and technical materials concerning its product to an export specialist in a CS district office in the United States. Within 90 days, the client receives a list of up to six prospective contacts. The CS offices abroad will assist in making appointments and introductions upon request. The fee for this service is $125 per request.

Market Research

CS district offices in the United States have market information on all foreign markets. The Country Marketing Plan, prepared annually by each CS office abroad, provides an overview of the commercial environment, market opportunities for U.S. products, and other useful information. Furthermore, these offices have current information on commercial trends abroad and new trade opportunities. Fees for this service vary.

Single Company Promotions

CS offices at U.S. Embassies can plan and host promotions for specific U.S. companies entering a new market. The charge for this service is cost reimbursement.

Trade Missions, Trade Shows, and Matchmakers

CS offices worldwide and other units of Commerce's International Trade Administration (ITA) in Washington organize, promote, and manage trade missions, U.S. exhibitions at international trade fairs, and Matchmaker programs. The Matchmaker program is a service that combines the advantages of a trade mission and private export counseling. The charge for this service is cost reimbursement.

Comparison Shopping Service

The Comparison Shopping Service provides concise answers to a list of 12 questions directed at evaluating the suitability of a product to a foreign market. This service also identifies the competitors, price, promotion and distribution systems, as well as trade barriers. The charge for this service ranges from $500 to $1,500, depending on the market requested.

Additional services and counseling are available from Commercial Officers and the CS. For more information regarding specialized services contact your local CS district office (listed in the local telephone book under Department of Commerce), the U.S. Embassy, or write to the Director General of the Commercial Service at the following address:

Director General
U.S. Commercial Service
Room 3802
International Trade Administration
U.S. Department of Commerce
Washington, D.C. 20230

THE ROLE OF THE OFFICE OF DEFENSE COOPERATION AND THE SECURITY ASSISTANCE OFFICE

The term "Security Assistance Office" (SAO) is a generic term encompassing DoD elements located in a foreign country that are responsible for Foreign Military Sales (FMS) and associated services, including training, sales management, program monitoring, evaluation of the host government's military capabilities and requirements, administrative support, and liaison functions. The SAO also promotes standardization and interoperability of host country and U.S. equipment, and promotes armaments cooperation between the United States and its friends and allies. Many SAOs have independent status within the U.S. embassies and are referred to as Offices of Defense Cooperation (ODC); some have armament cooperation contingents.

Administration policy on the SAO/ODC role in support of defense sales overseas has changed dramatically over the last few years. Starting in 1981, the Reagan Administration progressively replaced the previous restrictive guidelines with a policy that fully supports U.S. defense sales overseas. In August 1988, the DoD issued supplementary guidelines addressing the roles that SAOs and ODCs should play in assisting U.S. defense industry sales. Consequently, part of the SAO and ODC mission is to support the marketing efforts of U.S. companies while maintaining strict neutrality between U.S. competitors.

Providing Country Information

Upon request, and subject to such factors as availability of resources and country sensitivity, the SAOs or ODCs can provide industry representatives with the following kinds of unclassified information:

- Data on the defense budget cycle in the host country, including the share of that budget devoted to procurement. Data on the country's current FMS and Military Assistance Program budgets.
- Information on the national decision-making process, both formal and informal, and on decision makers in the Ministry of Defense and military services.
- Information on the national procurement process, to include bidding procedures, legal or policy impediments to procurement from U.S. sources, and other information necessary for the U.S. commercial competitor to deal effectively with the country.
- Estimates as to the kind of equipment the country currently needs to fill defense requirements and that it is likely to need in the future, as well as procurement plans for this equipment as known and appropriate for disclosure.
- Information regarding the marketing efforts of foreign competitors.

- Information on major in-country defense firms and their products. This can assist U.S. firms in identifying possible subcontract support services or exploring teaming, licensing, or other cooperative arrangements.

Appointments

The SAOs/ODCs can also facilitate appointments in the host country Ministry of Defense (MoD) and military services. In order to avoid the impression of SAO/ODC endorsement of a given item or service, making calls for appointments with country officials will normally be done by the industry representatives involved in a marketing effort, unless the host country prefers to work directly with SAOs/ODCs.

Thirty days prior to the proposed visit, industry representatives should provide to the SAO/ODC the following information:

- A synopsis of equipment and services proposed for sale.
- Current export license information, including restrictions and provisos.
- Dates of planned in-country travel/country clearance request.
- Non-proprietary information already provided to the host country, or other contacts concerning the equipment in question.
- Specific support (e.g., briefings, appointments) requested.

U.S. Competitors

Unlike most other countries that sell defense equipment, the United States is likely to have more than one producer of a given weapons system. SAOs/ODCs will maintain neutrality between such competitors. When more than one U.S. competitor is involved, the SAO/ODC should still be able to explain to host country personnel why the purchase of a U.S. system would be to the country's advantage. If asked by a representative of one U.S. company, the SAO can acknowledge whether and when other U.S. vendors have come through the country, but he cannot divulge any marketing strategy or other proprietary information of any U.S. competitor.

Commercial Versus FMS Sales

DoD policy generally has no preference whether a foreign country fills its valid defense needs through FMS or commercial channels. DoD tries to accommodate preference for direct sales, if such a preference is indicated by the contractor, unless the host country requests to make the purchase through FMS or the specific item is restricted to FMS. DoD policy also provides that price quotes will not normally be provided for comparison of FMS and direct sales.

U.S. firms should also have a working knowledge of the major differences between FMS and direct commercial sales. A DoD publication entitled <u>A Comparison of Direct Commercial Sales and</u>

Foreign Military Sales for the Acquisition of U.S. Articles and Services is available through the following office:

Commandant
Defense Institute for Security Assistance Management
DISAM/DIR, Bldg. 125, Area B
Wright Patterson Air Force Base, OH 45433-5000
Tel: (513) 255-2994/3669

Follow-Up

Prior to departing, visiting U.S. contractors should debrief the SAO/ODC and other relevant members of the country team on their experiences in-country. The SAO/ODC will provide any known reactions from host country officials or subsequent marketing efforts by foreign competitors. Embassy staff will also be alerted about obtaining reactions from host country officials and sharing these with industry representatives.

For detailed information on the role of the SAO in support of U.S. defense sales overseas, refer to DoD 5100.38-M within the Security Assistance Management Manual. This can also be obtained from the Defense Institute for Security Assistance Management.

THE RECIPROCAL PROCUREMENT MEMORANDA OF UNDERSTANDING

Background

To promote rationalization, standardization, and interoperability of defense equipment within the North Atlantic Treaty Organization (NATO), Congress enacted the Culver-Nunn Amendment to the fiscal year (FY) 1977 Defense Authorization Act, which authorized the Secretary of Defense to waive the Buy American Act of 1933. Under this authority, the Department of Defense (DoD) negotiated and signed reciprocal procurement Memoranda of Understanding (MOUs) with most NATO countries. A second piece of legislation, the Roth-Glenn-Nunn Amendment to the FY83 Defense Authorization Act, Public Law 97-252, reaffirmed the U.S. commitment to NATO cooperation.

As a result of the Camp David Accords of 1979, DoD also negotiated similar but more limited agreements with Israel and Egypt. These agreements were revised in 1987 and 1988, respectively, and were elevated to the status of reciprocal procurement MOUs. For national security considerations, MOUs were also negotiated with Switzerland, Australia, and more recently, Sweden.

MOU Provisions

An MOU is a bilateral agreement between the DoD of the United States of America and the Ministry of Defense of an allied or friendly country. It calls for the waiver of "buy national" restrictions, customs, and duties in order to allow the contractors of the signatories to participate, on a competitive basis, in the defense procurements of the other country. The goal is to promote standardization and interoperability of defense equipment so we may better support each other in wartime.

To comply with the MOUs, the United States waives the Buy American Act, the Balance of Payments Program, and customs and duties on DoD procurements for products originating in the countries with which we have signed such an agreement. Similarly, the allies must waive their "buy national" restrictions.

Not all restrictions are waived by the MOUs. DoD, for instance, restricts to U.S. and Canadian sources procurements of any items determined to be vital in case of national mobilization or emergency. In addition, DoD restricts to U.S. sources certain procurements that include classified information or sensitive technology, procurements set aside for small businesses, and any other items restricted by law or regulation. The allies restrict similar items although, in some cases, their restrictions are not as well defined.

The MOU Countries

The United States has negotiated and signed 19 reciprocal and 2 non-reciprocal MOUs and the partner countries are listed below.

MOU PARTNER COUNTRIES			
NATO	***NON-NATO EUROPE***	***OTHER***	***NON-RECIPROCAL***
Belgium	Austria	Egypt	Australia
Denmark	Finland	Israel	Canada
France	Sweden		
Germany	Switzerland		
Greece			
Italy			
Luxembourg			
Netherlands			
Norway			
Portugal			
Spain			
Turkey			
United Kingdom			

Present Realities

The MOUs have generally served the best interests of the United States and have been a good foundation for armaments cooperation. However, relationships with our defense trading partners have changed and we must adjust to an economically integrated European market. Moreover, pressures for increased allied burden sharing come at a time of European perceptions

of a reduced military threat. We must ensure that the MOUs continue to foster armaments cooperation while preserving business opportunities for U.S. industry in foreign markets.

DoD continues to review these MOUs to reflect the current security and foreign policy environment. Where necessary, we will amend them to assure reciprocity for U.S. industry seeking business in the defense markets of our allies, just as they guarantee opportunity for the industries of our allies in the U.S. defense market.

Additional information or copies of the MOUs can be obtained from the following office within the Department of Defense:

Foreign Contracting
OASD(P&L)FC
Office of the Secretary of Defense
Room 2A326, The Pentagon
Washington, DC 20301
Tel: (202) 697-9351

U.S. EXPORT CONTROL REGULATIONS

The U.S. Government controls the export of many of the defense items, dual-use items, and technology mentioned in this guide. U.S. exporters are responsible for compliance with these regulations. The U.S. Department of State controls the export of defense items under the International Traffic in Arms Regulations (ITAR). The U.S. Department of Commerce controls the export of dual-use items under the Export Administration Regulations (EAR).

For information on the export of defense articles, including technical data and technical assistance, U.S. firms should consult with the following offices within the Department of State:

Office of Defense Trade Controls
PM/DTC, SA-6, Room 200
Bureau of Political-Military Affairs
U.S. Department of State
Washington, D.C. 20522-0602
Tel: (703) 875-7050
Fax: (703) 875-6647

Office of Export Control Policy
PM/EXP, Room 2421
Bureau of Political-Military affairs
U.S. Department of State
Washington, D.C. 20522-7815
Tel: (202) 647-4231
Fax: (202) 647-4232

For information on dual-use export controls, U.S. firms should consult with the following offices within the Department of Commerce:

Strategic Trade and Foreign Policy Controls:

Foreign Policy Controls Division
Bureau of Export Administration
U.S. Department of Commerce
P.O. Box 273, Room 2620
Washington, D.C. 20044
Tel: (202) 482-4252
Fax: (202) 482-6088

Commerce Classifications:

Office of Exporter Services
Bureau of Export Administration
U.S. Department of Commerce
P.O. Box 273, Room 1099D
Washington, D.C. 20230
Tel: (202) 482-5811
Fax: (202) 482-3617

COUNTRY PROFILES

EGYPT

EGYPT

Overview

Since 1991, the Egyptian Government has initiated a comprehensive economic reform package to achieve sustainable GDP growth as well as limit inflation and the increase in foreign debt. As a result of aggressive implementation of this program, GDP grew at approximately 3% in the early 1990s. However, the pace of economic reform has slowed which has led to lower growth rates in 1995 at 2% to 2.5% range.

Although reform efforts and GDP growth rates have slowed, the U.S. maintains 25% share of the $11 billion Egyptian market. In the military sector, the Egyptian Armed Forces operate a large amount of U.S.- manufactured equipment which may provide a wide variety of business opportunities for U.S. firms.

Defense Industry Environment

The funds budgeted for defense is not released by the Egyptian government. However, various publications have placed defense expenditures at approximately $3 billion per year. The U.S. provides $1.3 billion annually to the Egyptian military in the form of Foreign Military Financing (FMF) grants.

Regarding indigenous manufacturing capabilities, the Ministry of Military Production operates twenty factories. In addition, the Arab Organization for Industrialization and the National Service Projects Organization operate nine and three facilities respectively. The type of military goods produced in Egypt include: small caliber and heavy ammunition, mortars, mines, grenades and other explosives, antitank rockets, rocket motors, radars and electronic equipment, smoke and pyrotechnic devices, rifles, pistols (Beretta licensee) and machine guns, jet trainer aircraft (Alpha and Tucano), armored personnel carriers, Alpha jet engines, field and aircraft communications equipment, Gazelle helicopters and engines, gyroscopes, weapon sights, binoculars, and periscopes.

U.S. Suppliers of Defense Items to Egypt

Listed below are U.S. firms that supply the Egyptian Armed Forces with a wide range of defense equipment.

AAI Corporation	Combat Vehicle Development
Alcan (Hughes)	Tow Missile Program
Alliant Techsystems	Ammunition
Allison Transmissions	Transmissions

Bell Helicopter-Textron	Helicopters/Maintenance
BMY	Combat Systems
CACI	Automation Support
Chamberlain Manufacturing	Ammunition
Develop Sciences Corporation	Skyeye RPV
Devileg-Sundstrand, Inc.	Machine Tools
Detroit Diesel	Engine Parts
Emerson Electronics	Optical Depot, Fist-V Vehicles
Environmental Tech. Group	NBC Equipment
United Defense	Combat Vehicles
Rockwell	Air Defense System
General Dynamics	Combat Vehicle
General Electric	Radar
GTE	Electronics
Northrop/Grumman Aerospace	Aircraft Support
Harris Corp.	Communication Equipment
Alliant Techsystems	Electronic Systems, Tow Missile
ITT Defense	Electronic Systems
Lockheed/Martin	Aircraft
	Electronics
	Smart Munitions
Oshkosh Truck	Vehicles
Pratt & Whitney	Engines
Raytheon	Air Defense Systems
Teledyne-Brown Eng.	Engineering Support
Texas Instruments	Thermal Sights
Textron	Technical Support
Westinghouse	Electronics

The Egyptian Armed Forces will continue to operate and maintain the U.S. weapons systems currently in their force structure for the foreseeable future. Thus, they will have procurement interests in the following categories:

Land Forces: Spare parts and major assemblies support for M1A1 tanks, M60 series tanks, M113 series APC's, M109A2 SP artillery pieces, M88 recovery vehicles, and numerous tactical wheeled vehicles.

Air Force: Ongoing technical support, maintenance support and spare parts for C-130, F-4, F-16, E2-C, CH-47, Apache, and Black Hawk aircraft. There is also a requirement for control tower equipment and simulator support for these aircraft.

Air Defense: Technical and maintenance support for TPS-63 and other air defense radars. Technical and maintenance support for HAWK, Chaparral and Sparrow Air Defense Systems.

Non-Service Specific: Spare parts for engineer equipment and tools and test equipment for upgrading depot support of all the U.S. systems listed above, plus an integrated IFF system for all Egyptian Armed Forces.

The Egyptian Armed Forces are currently trying to complete their modernization of Central European and ex-Soviet equipment with western systems. Based on these requirements plus Egyptian inquiries for information, the Egyptian Government may consider the purchase of the following new systems: modern anti-tank weapons, air defense radars, frequency hopping radios, diesel submarines, Perry class frigates, coastal patrol craft, night vision equipment of all types, and antisubmarine helicopters.

Defense Plan

Although the Egyptian Armed Forces tightly control information about their various five year defense plans, it is very likely that in addition to the new platforms listed above, they will be interested in the purchase of the following equipment to complete force modernization:

- Additional F-16 Aircraft
- Additional HAWK or other mid-range air defense systems.
- Additional air defense radars
- RPV systems
- Additional scout vehicles (HMMWV or similar vehicles).
- Armored Personnel Carriers
- Mine hunters
- Engineer equipment
- GPS equipment
- Modern NVG equipment of all types
- Additional Apache Helicopters
- Short range air defense systems
- Other training equipment for establishing a National Training Center
- Improvements/upgrades to Egyptian Air Defense Command and Control systems
- Improvements/upgrades to strategic communications networks
- Additional cargo aircraft to support unit deployments

Diversification/Commercial Opportunities

The following industry sectors have been identified as good potential markets for U.S. firms.

Telecommunications

With the modernization of Egypt's telecommunication's network, state-of-the-art satellite equipment is needed to upgrade TV broadcasting and for the rapidly growing private user market. The Egyptian market for satellite telecommunications equipment is expected to continue increasing at a rate of 30%. The current telephone density of three per 100 persons is planned to increase to seven per 100 by the year 2010. This will require the installation of 250,000-400,000 lines per year. The current five year plan 1992-1997 includes $700 million for the telephone and communications sector. The U.S. has the largest share, 65%, mainly due to high quality and durability. Most promising subsectors include: satellite telecommunications equipment, cellular telecommunications, fiber optic cables, and telephone cable.

Aircraft and Parts

The U.S. is the major supplier of aircraft and parts to Egypt. Almost 50% of the civilian fleet (43 aircraft) is of U.S. origin. France has the remaining portion of the aircraft market. On the military side, over 90% of the Egyptian Air Force consists of U.S. aircraft. As a result of the domination of the aircraft market by U.S. firms, demand for U.S. manufactured spare parts and engines will continue. The Egyptian Government has allocated $350 million in its third five year plan (1992-1997) to purchase aircraft engines, parts, and simulators. In 1992, the U.S. share of the total market size of civil aircraft and parts exceeded 85%, in addition to the U.S. export of military aircraft and parts worth $620 million, which is partially included in the above figures. Additional growth areas for U.S. firms include: aircraft engines, airborne equipment, general aviation equipment, and large transport aircraft.

Oil and Gas Field Machinery

Future growth in this industry is expected to be mainly in gas exploration projects, new refineries and petrochemical plants. Local industry produces iron, steel, and plastic pipes required for the energy sector while the majority of equipment is imported. The Ministry of Petroleum invested over $40 million in an isomerization project. Recently the government has approved establishing of two refineries that will be owned and operated by the private sector, a program valued at $2.6 billion. Heavy investment by the Government and private firms provide many opportunities for U.S. firms in this area.

Airport and Ground Support Equipment

The majority of the airport equipment currently utilized in Egyptian Airports are of French origin. In September 1994, the U.S. Trade and Development Agency (TDA) assigned the Air Traffic Control Association to undertake a regional project identification and investment study for the modernization and rehabilitation of aeronautical communication and navigation installations in airports in Egypt and other Middle East countries. The Government of Egypt has indicated its interest in modernizing and upgrading NAVAIDS equipment in its 18 civilian

airports. In addition, growth subsectors for U.S. firms include: radars; communication systems; security systems; navigational systems; runway construction, and supply of airport lighting systems.

Computers & Peripherals

The computer market has experienced strong growth in recent years and will continue to expand in the medium term. The excellent reputation of U.S. technology enhances sales generated by U.S. computer firms. There is a small indigenous computer industry which is limited to the assembly of imported computer components. The upgrading of the telephone network has facilitated the use of computer, laptops, and modems for interconnecting systems. Subsector markets such as personal computers, local area networks, and laptops continue to grow for U.S. industry.

Medical Equipment

There is very little indigenous medical equipment manufacturing in Egypt. While the use of sophisticated medical equipment is growing, total expenditures are still small for a country of 60 million. The Government has developed an ambitious plan to upgrade more than forty general hospitals, and construct twelve new hospitals within in the next two years. Most promising subsector for U.S. firms include dialysis equipment and medical lasers.

Pollution Control Equipment

The current five year plan (1992-1997) has allocated almost $500 million for environment projects. Growth areas for U.S. industry include water treatment, air pollution control, machinery and technology for recycling.

Business Equipment

The business equipment market is rapidly expanding especially for photocopiers, fax machines, and electric typewriters. Xerox assembles copying machines locally and has captured a 70% of the Egyptian market. There is a market, however, for additional suppliers who can offer competitive prices. Japan has a growing presence in the business equipment sector through several suppliers including Ricoh, Minolta, and Canon. Most promising subsectors include: photocopiers, fax machines, and typewriters.

Privatization

The Government of Egypt's (GOE) privatization program covers approximately 314 public sector manufacturing and service companies. Less than three dozen have been brought to the point of sale, and only four have actually been sold. The four include soft drink bottling facilities purchased by joint ventures that include Pepsico and Coca Cola, a boiler manufacturer

purchased by Babcock and Wilcox, and the Sheraton Cairo Hotel, part of whose shares were purchased by a Libyan/Egyptian/Saudi consortium.

Many of the government-owned companies lose money and are deeply in debt, thus making them unattractive to potential buyers. However, other profitable GOE companies offered for sale have attracted numerous bids from both Egyptian and foreign entities.

Build-Own-Transfer (BOT) is a new concept in Egypt that has begun to interest the government in areas of power production, road/turnpike development, and airport operation. A call for pre-qualification information was issued in June 1996 for the BOT operation of a proposed tourism airport on the Red Sea at Marsa Alaam. 800 kilometers south of Cairo, Egyptian authorities are proposing a possible BOT airport at Ras Banas.

The Egyptian Government as well as the people of Egypt are of mixed mind about the value of foreign investment. They recognize its theoretical value in symbolizing confidence in Egypt's economy and polity, but they fear loss of control. This explains why Egypt has not dramatically encouraged new foreign investment through the privatization program or otherwise. Nonetheless, foreign investment is welcome, and Egyptian investment laws and related treaties such as the U.S.-Egyptian Bilateral Investment Treaty, ensure fair treatment, profit and capital repatriation rights, and equal access to incentives. Several dozen existing U.S. investments, mainly in the form of joint ventures, are profitable. Many factories are expanding capacity for domestic consumption and for exports.

U.S. firms interested in buying an Egyptian public sector company should contact the government agency responsible for the privatization program:

Public Enterprise Office (PEO)
1 Latin America Street
Garden City, Cairo
Tel.: 3559244, 3559288, or 3559287
Fax: 3559233

Egyptian authorities have stressed that all sales will be "transparent" through public bids; there will be no sole-source negotiations; and in practice contracts are signed only after long, intensive negotiations.

Military production plants are not scheduled for privatization and are unlikely to be sold. Twenty-six of these plants produce both military and civilian goods, and many managers of these plants are interested in licensing arrangements with foreign firms to enhance their production mix and improve quality.

The M1-A1 tank facility (Military Factory 200) outside Cairo, is one of the largest military manufacturing facilities in this part of the world. Its American-trained Egyptian

workforce is highly skilled and has access to state-of-the-art production and maintenance machinery. Since the production of M1-A1 tanks will end in 1997, Egyptian authorities are interested in attracting large-scale medium and heavy industrial producers to produce other products at this excellent facility either under license or in joint venture.

Examples of civilian products currently manufactured at twenty-six of Egypt's military factories include: medical and diagnostic equipment; domestic appliances; fire extinguishers; ammunition; machine shop equipment such as lathes, drills, and grinders; generating and welding sets; electric motors; television receivers; computers; batteries; electric and water meters; agricultural machines; kitchen equipment; mobile water purifiers; circuit boards; calibration equipment; Chrysler Jeep-brand vehicles; laser alignment instruments; and microscopes.

Three entities are responsible for Egypt's military production plants and are listed below.

- Ministry of Military Production
  5 Ismail Abaza Street
  Cairo, Egypt
  Tel: 355-3063
  Fax: 355-3617

  This ministry supervises 20 factories of which 14 also produce civilian goods.

- Arab Organization for Industrialization (AOI)
  P.O. Box 770
  Cairo, Egypt
  Tel: 282-2087
  Fax: 826010

  AOI is jointly owned by the GOE, Saudi Arabia, United Arab Emirates, and Qatar, whose nine factories in Egypt produce civilian and military goods

- National Service Projects Organization (NSPO)
  10 Mahmoud Talaat St.
  Nasr City, Cairo, Egypt
  Tel: 600236 or 601684
  Fax: 604203

  NSPO operates three production companies that produce military equipment.

There are thirty-three ministries in the Egyptian government. Key ministries that procure goods supplied from the U.S. include the ministries of: Agriculture and Land Reclamation; Economy and Foreign Trade; Education, Electricity, and Energy; Health, Housing and New

Communities; Industry and Mineral Resources; Interior, Petroleum, Public Works and Water Resources; Supply and Internal Trade; Tourism: and Transport-Communications-Civil Aviation.

Other important specialized agencies include the Arab Republic of Egypt National Telecommunications Organization (ARENTO), the Cabinet Information and Decision Support Center, the Central Agency for Public Mobilization and Statistics, the Egyptian Environment Affairs Agency, and the Egyptian General Petroleum Corporation. Each of 26 provincial administrations such as those of Cairo, Giza, Alexandria, and Port Said also have procurement authority.

The GOE agencies listed above will not respond to foreign requesters of routine information. Instead, U.S. firms should find a local private Egyptian agent or consultant to pursue projects, tenders, or questions of interest. The Agent/Distributor Service (ADS), sold by all U.S. Department of Commerce District Offices in 70 U.S. cities, can identify prospective representatives for U.S. firms in Egypt.

Doing Business in Egypt

This section excerpts relevant information pertaining to the procurement of defense related equipment and services. For more detailed information and for advice on marketing to the private sector, appointment of private sector agents and distributors, and investing in Egypt, please see the Country Commercial Guide for Egypt (1995), prepared by the American Embassy staff in Cairo. The Guide is available in the National Trade Data Bank (NTDB) or on CD-ROM by purchase ($59 per monthly issue) or subscription ($575 per year) from the U.S. Department of Commerce, Washington, D.C., Tel. 202-482-1986, FAX: 202-482-2164. The NTDB is available at over 900 Federal Deposit Libraries, at Department of Commerce District Offices, and elsewhere throughout the United States.

Tenders Law No. 9 of 1983, supplemented by implementing regulations issued by the Ministry of Finance (Decree 157 of 1983, as amended), governs Egyptian Government procurement by all civilian and military agencies unless they are specifically exempted from this law. This law covers sole-source and competitive procurement procedures. Agents may not be used by foreign firms bidding on military tenders, however, use of "consultants" is permitted. Many retired military officers operate legal businesses as consultants to foreign suppliers of defense equipment.

Several key requirements of the Tenders Law include: open competition; bid bonds of one percent and performance bonds of five percent; and fraud, bribery ("either personally or through a third party, directly or indirectly") or bankruptcy by the contracting party voids the contract and allows outstanding bid or performance bonds to be confiscated.

Problems with tendering procedures include: (a) no time limit for the decision-making committees to meet, or to make, or announce their decision, thus bidders must pay the cost of repeated renewals of their bid bonds justified by the most frivolous of reasons; (b) bidders cannot withdraw from a competition without risking loss of their bid bond; c) Government clients often delay giving "final acceptance" of a contract, which holds up the final payment and final retirement of the performance bond; (d) contract change orders must be endorsed by a special "price study committee" which sometimes takes years to approve the action. The contractor is nevertheless expected to fulfill the revised contract without delay; and (e) dispute settlement procedures are not defined by the Tenders Law, leaving this subject discretionary. Such procedures should therefore be included in the contract.

Intellectual Property Rights (IPR)

IPR has been weakly enforced in Egypt. However, a new copyright law meets international standards. A draft patent law is expected to be approved within the coming year. The trademark law dates from 1939 and needs improvement in content, enforcement, and understanding by the courts.

U.S. Government Points of Contact

The following is a list of useful contacts for U.S. firms interested in the Egyptian market.

U.S. Embassy

John Priamou
Senior Commercial Officer
American Embassy Cairo
Unit 64900, Box 11
APO AE 09839-4900
Tel: 011-20-20357-2230
Fax: 011-20-2-355-8368

LTC. Bernard J. Witten
Defense Industrial Coordinator
Office of Military Cooperation
American Embassy Cairo
Unit 64901, Box 29
APO AE 09839-4901
Tel: 011-20-2-357-3844
Fax: 011-20-2-357-2273

Trade Associations in Egypt

There are no specialized defense industry trade associations in Egypt. However, the key American business interest group (which includes U.S. defense suppliers as members) is the following:

American Chamber of Commerce in Egypt
Shafik Gabr, President
Suite 1541
Marriott Hotel
Zamalek, Cairo, Egypt
Tel: 011-20-2-340-8888, ext. 1541
Fax: 011-20-2-340-9482

ISRAEL

ISRAEL

Overview

The two major factors influencing Israel's economy since 1990 are the influx of nearly 600,000 immigrants from the former Soviet Union and the Middle East peace process. Both have been positive influences, leading to an average annual growth rate since 1990 of approximately 5 percent. GDP growth in 1996 is expected to reach between 4.5-5 percent, on the heels of 7 percent GDP growth in 1994.

Israel's economic growth continues to be primarily export-led. The almost frenetic double-digit growth in exports which characterized the past few years as Israel took advantage of the erosion of the Arab boycott to penetrate new markets in Asia and East Europe is expected to slow in 1995-1996. Bilateral trade between the U.S. and Israel is slightly over $10 billion, with the balance in Israel's favor.

The current positive trends in Israel's economy are expected to continue through the year 2000, as Israel's benefits from the fruits of peace, extensive investment in infrastructure and education and new immigrants continue their assimilation into Israel's economy. Maintaining discipline in public sector spending, continuing economic deregulation and reducing the current balance of payments gap will be crucial to Israel's achievement of sustainable growth over the long run. The current trend of strong growth rates provide a wide variety of dual-use and defense trade opportunities for U.S. firms.

Defense Industry Environment

Israel's $6.8 billion defense budget accounted for ten percent of GDP. Approximately twenty five percent of the annual defense budget is spent on procurement. In addition, the U.S. in 1995 provided $1.8 billion of which $1.325 billion must be spent on purchases from the U.S. The balance of $475 million was authorized for use for defense procurements within Israel.

Because Israel's three main defense industries (Rafael, IAI, and TAAS) are government-owned, their research and development facilities are used by the Ministry of Defense (MOD) R&D Office. This office also uses the Technion and Soreq Institutes as research and development facilities.

Following are short profiles of Israel's major defense firms:

Rafael Armament Development Authority (Rafael): Rafael provides services to the MOD, manufacturing guided and unguided weapon systems, electro-optics, military electronics, and image systems for the Israel Defense Forces (IDF) as well as for export. The company employs

5,000 with sales of approximately $420 million of which $150 million is derived from exports. The authority is known for its sophisticated R&D facilities.

Israel Aircraft Industries, Ltd. (IAI): IAI employs over 17,000 with sales of approximately $1.6 billion, seventy five percent of which is derived from exports. IAI manufactures aircraft, patrol boats, armored cars, and missile systems.

TAAS Israel Industries, Ltd. (TAAS): TAAS is the country's oldest defense company, established in 1933. Employing 6000, TAAS generated sales of $500 million, 90 percent of which is derived from exports. The company's core business are advanced weapons and ammunition systems, missiles, rocket motors, and aviation equipment. Its commercial activities include electro-mechanic and electronic systems, metal construction, and engineering.

These companies grew dramatically in the decade following the 1973 war, during a period that the Government of Israel (GOI) found it necessary to achieve its own production capabilities in order to provide for its own defense. As a result, large budgets (25.2 percent of GNP in 1980) were transferred to these industries, including as much as one-half of the nation's entire R&D budget. Cost-plus contracts were widely utilized, and highly advanced weapons and control systems were developed by an industry characterized by high costs for salaries and advanced materials. In order to amortize development costs, achieve economies of scale in production, and earn export income, Israel developed an extensive program of defense exports, which by 1994 had reached 38 percent of defense sales and 20 percent of national industrial exports.

Since the mid-1980s, the high cost of weapons and support systems, combined with a smaller market, created the same competitive pressures faced by U.S. defense firms. Faced with large operating deficits, Israel's major defense firms have searched for ways to trim personnel costs and adapt military technologies for use in new civilian applications. To date, neither effort has been completely successful. Formal recovery plans, designed to lead IAI and TAAS toward privatization, were implemented in the early 1990's, but have not been successful. The GOI plans to institute a similar plan for Rafael in 1995.

The labor force in the defense sector has been strongly protected by the National Labor Organization, and industry management has been reluctant to undertake the necessary economic and market analyses to compete in civilian markets. Instead, the three government-owned defense industries have argued that it is in the national interest for Israel to protect and support the defense industry rather than force it into diversification and make it subject to international markets.

Major U.S. suppliers of defense equipment to Israel include McDonnell Douglas, Martin Marietta, Loral Vought Systems, Raytheon, and Sikorsky.

Defense Opportunities

Based on recent acquisitions and receipt of excess equipment, the Israeli Defense Force (IDF) has requirements for spare parts and upgrades as needed for of their F-16 aircraft, Apache, Cobra, and Blackhawk helicopters, Patriot missile systems, and overhaul of their M-60 tanks.

Two recent major FMS purchases of the Multiple Launch Rocket Systems (MLRS) and F-15 aircraft will require the IDF to contract support for maintenance and possibly spares parts. The purchase of these systems will upgrade both the ground Corps and the Air Force. The Army will also continue domestic production of the Merkava 4 Tank. In addition, emphasis will be placed on theater ballistic defense with systems such as the Arrow which is being jointly developed with the U.S.

Defense Procurement Process

The procurement of defense equipment by the Israeli Government in the U.S. is handled by the Ministry of Defense (MOD) which maintains a 200-person purchasing mission in New York. The mission handles all purchases of U.S. equipment including direct commercial contracts paid by FMS funds. The Israeli MOD also operates a much smaller purchasing mission in Paris.

Procurements are advertised in the Commerce Business Daily (CBD) and in advertisements placed by the New York mission in newspapers across the U.S. The New York mission directly places and executes defense contracts. Most negotiations on large dollar value contracts usually include an offset arrangement. Contracts advertised and executed in Israel are subject to Israeli law.

U.S. firms must realize that they are competing against Israeli industries as well as European companies on most contracts. There is a free trade agreement between Israel and the European community, which allows importation of raw materials without duty. Full implementation of the U.S.-Israel Free Trade Area occurred on January 1, 1995. This agreement eliminated all the remaining duties on U.S. products. Most Israeli defense industries are in a difficult financial situation, having to dismiss thousands of workers. Therefore, the MOD will give preference to offers from local industry and to foreign companies offering local content in their products. The Ministry of Defense has exclusive jurisdiction over defense trade.

Israeli Points of Contact:

Deputy Head of the Defense Mission to the U.S.
800 Second Avenue
New York, New York 10017
Tel: 212-551-0200

Fax: 212-551-4124

Senior Representative for Defense Exports
Embassy of Israel
3514 International Drive NW
Washington, DC 20008
Tel: 202-364-5500
Fax: 202-364-5529

Ministry of Defense
Deputy Head for Economic Affairs
Directorate of Procurement and Production
Hakiriya Tel Aviv
Tel: 011-972-3-697-5918
Fax: 011-972-3-697-7259

Israeli Sales Director
Israeli Ministry of Defense-Sibat
8 David Elazar Street
Tel Aviv 61909
Tel: 011-972-3-697-5585
Fax: 011-972-3-697-6724

Diversification/Commercialization Opportunities

Israel's growing economy and high technology sectors offer many dual-use opportunities for U.S. firms. Described below are industry sectors deemed "best prospects" for U.S. exports by the Commerce Department's Foreign Commercial Service in Tel Aviv.

Electrical Power Systems

Two factors assure the growth of the market for electrical power systems: Israel Electric Corporation (IEC) continues to invest $1 billion annually in generation, transmission and distribution systems; the Ministry of Energy and Infrastructure plans to issue international tenders for the involvement of IPP's in electricity generation. Although European companies are making inroads in this sector, U.S. companies still hold the lead in the market, having supplied IEC since the company's establishment. As of May 1995, IEC has accessed $970 million of the $10 billion U.S. loan guarantees available to the State of Israel.

Pollution Control Equipment

The Ministry of Environment (MOE) with support from the Ministry of Finance is providing grants to promote investment in the local environmental industry. The use of EPA

standards for air quality control, the high regard for U.S. technologies and services in the market, coupled with a lack of expertise and experience of the local companies provide U.S. environmental firms with a good market opportunity.

Medical Equipment and Supplies

Israel has absorbed 600,000 immigrants since 1990 and its population is continuing to grow at an annual rate of 2.7 percent. On January 1, 1995, the National Health Insurance Law came into effect under which all citizens are entitled to universal medical care. The medical sector will continue to expand to meet demands for medical services to those who were not previously insured and of the elderly who now comprise nine percent of the population. As a result, there is a growing demand for high-quality medical equipment. American equipment is highly regarded, but U.S. suppliers continue to compete against a growing presence of European manufacturers.

Computer Software

U.S. products encounter fierce competition from the local production of computer software. The Israeli high technology industries have developed significantly in the past three years and computer software has become a leading industry. Best prospect markets for U.S. products are the multimedia field, which is growing at a startling pace, due to the Ministry of Education's large investments in the automation of all education systems.

Electronic Components

Consumption of components manufactured under strict military specifications represent over 50 percent of the total market. Other leading sectors include civil communication (17%), and computers and peripherals (22%). This market profile allows relatively small manufacturers to capture market share quickly if they can respond effectively to market demand. The wide range and broad basis of the Israeli electronics industry, combined with fast growing export markets for the local electronics industry, provide electronic components with a buffer against a downturn in demand in any single end-user industry. Price reductions in many electronic product areas, combined with presence of most world manufacturers render the Israeli component market highly competitive.

Machine Tools/Metalworking Equipment

The domestic metalworking industry employs over 70,000 people and constitutes 22% of Israel's industrial output and 25 percent of its exports. Growth in this market will be driven by demand for automation equipment and advanced machinery in high-technology defense industries and sophisticated export-oriented businesses. Israel has a strong requirement to remain in the technological forefront in the fields of metallurgy, missile systems, armor and avionics. As a result, there is a receptive audience among users of metalworking equipment for

all types of advanced devices and systems. Germany, Italy and Japan are the strongest third country competitors. There are no special regulations affecting imports.

Telecommunications

Israel's telecommunications market offers good opportunities with the ongoing expansion of the national CATV network, the introduction of a second cellular telephone operator and the liberalization of the international calls market, in which two new operators will be licensed this year. The elimination of the remaining 10-15 percent duty on January 1, 1995 made U.S. telecommunications products even more competitive.

Automotive Parts and Service Equipment

There is a growing demand for U.S.-manufactured cars and accessories due to their high safety standards and the reduction of the purchase tax levied on automobiles with large engines. The increased sales of U.S. cars has resulted in growing market potential for U.S.-made accessories and spare parts. However, U.S. manufacturers face stiff competition from Europe and the Far East. The increasing number of vehicles over the past few years has created a strong demand for service equipment.

Computers & Peripherals

U.S.-made computers and peripherals account for over 30 percent of the import market in this sector. Israeli consumers have a preference for U.S. brand-name computers. Defense related establishments prefer U.S.-made computers, as they can be purchased with FMS funds. However, this is a very competitive market and the presence of European firms and East Asian manufacturers is strengthening every year.

Defense Conversion

The Ministry of Defense and the Ministry of Industry and Trade are promoting defense conversion and the commercialization of dual use technologies. They have provided the following list of major defense firms interested in exploring defense conversion projects as investors or joint venture partners.

Israel Aircraft Industries Ltd.
Mr. Adrian Abramovitch
Tel: 011-972-3-935-3155
Fax: 011-972-3-935-7411

Israel Military Industries
Dr. Avishai Yaniv

Tel: 011-972-3-548-5650
Fax: 011-972-3-548-5725

Rafael
Dr. Aviel Brosh
Tel: 011-972-4-879-4078
Fax: 011-972-4-879-4648

Tadiran, Ltd.
Mr. Shlomo Yariv
Tel: 011-972-3-557-3209
Fax: 011-972-3-557-3282

Elbit, Ltd.
Mr. Arie Tal
Tel: 011-972-3-695-7558
Fax: 011-972-3-695-6615

El-OP Electro-Optics Industries, Ltd.
Dr. Moshe Oron
Tel: 011-972-8-386-302
Fax: 011-972-8-386-826

Opgal Optronics Industries, Ltd.
Mr. Jacob Lichter
Tel: 011-972-4-995-3902
Fax: 011-972-4-995-3900

Privatization

Since its election in 1992, the current Government has talked frequently of privatizing elements of the government-owned defense companies. However, no concrete plans or time-table to sell the government interests to private investors have been developed. Consequently, opportunities for U.S. investors to take equity positions in these three major companies do not exist. The GOI has announced plans to sell off most of its holdings in government companies, including government shares in commercial banks. Privatization plans, however, proceed slowly. El-Al (the national airline), Zim Maritime (national shipping company), Bezek (national telecommunications company), Tahal (national water planning company), Israel Electric Company (IEC) and the country's three leading banks are all still owned by the government. There has been steady liberalization of the capital and foreign exchange markets.

Throughout the 1970's and 1980's, Israel's high-technology companies had their R&D costs largely financed by defense contracts, and many of the leading companies still rely on the Israeli Ministry of Defense to finance their research programs. However, many of these firms recognize the need to adapt defense technologies to civilian market applications, and are actively seeking strategic partners to help them with prototype testing and refinement, and eventually production and marketing. Key areas include adapting night vision and protective wear for the law enforcement market, developing interference resistant RF and DSP telecommunications devices, and medical/diagnostic and civilian engineering applications of laser products. Some companies, such as Elscint and Scitex have established themselves as technology and market leaders.

U.S. firms should expect stiff competition from Israeli companies if they decide to enter the market with their own products and technologies. Many of the Israeli companies are developing products designed for U.S. and European markets, and all depend on export markets. Because of the need for capital to scale-up their production and to penetrate new markets, U.S. firms will find Israeli companies eager for joint venture arrangements and technology and production licensing agreements.

Doing Business in Israel

Israel has a professional and westernized business environment in which most U.S. business people will feel comfortable. Israelis arrive well-prepared for meetings, come straight to the point, and are very direct. Appointments can be made on fairly short notice, but punctuality is desired. Business cards are recommended. Business suits are appropriate for meetings with private sector companies and government officials, but business travelers will find business dress in both the private sector and government offices to be much less formal than in the United States, especially from April to October. English is widely spoken in the business community and in government offices.

Israeli business people understand that, given the size of the domestic market, they must operate internationally to survive. As a result, they generally are very accessible to U.S. companies and their representatives. A work week is usually five days, from Sunday through Thursday, with office hours generally from 8:00 am - 5:00 pm. Some businesses are open on Friday from 8:00 am - 1:00 pm.

Israel has a well-developed and modern banking system, which provides all banking and credit services. The leading banks operate subsidiaries in the U.S. and maintain correspondent relationships with U.S. banks.

Export Control

The U.S. Department of Commerce requires a validated license for the export of certain controlled technologies to Israel. In general, licenses are issued after completion of an export control check performed by the commercial section of the U.S. Embassy. The export of Israeli commercial technologies derived from defense-related technologies is subject to approval by the Israeli Ministry of Industry and Trade, after having received initial approval from the MOD.

Buy-Israel regulations require GOI entities to award a tender to an Israeli firm if the local firm's bid is up to 15 percent higher than the foreign proposal. If a local company is located in a so called priority area, it receives an additional 15 percent advantage. If Israel's GATT or other international obligations conflict with the Buy-Israel rules, the international obligations will take precedence. Sales to GOI entities are usually subject to offset regulations, requiring a foreign company to purchase local products or use local content of up to 35 percent of the cost of the awarded contract.

There is no restriction on foreign competition. However, many government tenders are selective (i.e. not issued publicly), but addressed to a small number of prequalified suppliers.

Local Agent/Distributor

Although there is no general requirement for a foreign company to appoint a local representative, in many cases, when after-sales service may be required or local stock kept, a local representation is an advantage. It is advisable for a U.S. company to contract a competent Israeli agent/distributor who knows how to operate within the local bureaucracy. There are no general restrictions on foreign ownership of local enterprises or joint ventures, and no requirements for Israeli participation in foreign-owned enterprises. Foreign investment capital and profits can be freely repatriated, provided the funds are channeled through authorized banks.

Intellectual Property Rights

Israel is a member of the Paris convention for the protection of industrial property and of the Berne Union and the Universal Copyright Convention. Patents are regulated by the Patent Act of 1967, though new patent legislation is currently in the works. Recently, the Israeli courts have imposed harsher punishments on intellectual property right offenses.

U.S. Government Points of Contact:

The following is a list of helpful contacts for U.S. firms interested in the Israeli market.

U.S. Embassy

Mr. Barry Friedman
Commercial Counselor
U.S. Embassy, Tel Aviv
Tel: 011-972-3-519-7585
Fax: 011-972-3-510-7215

Ms. Joan A. Buchanan
Armaments Cooperation Specialist
U.S. Embassy, Tel Aviv
Tel: 011-972-3-519-7338
Fax: 011-972-3-516-3508

Chamber of Commerce:

Ms. Nina Admoni
Executive Director
U.S. - Israel Chamber of Commerce
Tel Aviv
Tel: 011-972-3-695-2341
Fax: 011-972-3-695-1272

JORDAN

JORDAN

Overview

Jordan's economy has recovered from the dislocations caused in part by the Persian Gulf crisis and has maintained growth rates in the 5% range during early to mid 1990s. The United States is becoming a major source of imports which reflects the strong reputation of U.S. products in Jordan. The major achievements in the Middle East peace process has resulted in a wider security and commercial relationship between Jordan and the U.S. which may lead to increased business opportunities for U.S. firms.

Defense Industry Environment

According to the Government of Jordan's FY 1996 budget of $1.614 billion, current expenditures for the Ministry of Defense are projected at $397 million which includes allocations for the medical service. The MOD's budget grew by 8.1% over FY95 funding.

The Ministry of Defense relies on imported defense equipment, as there are no defense industry firms in Jordan. The traditional suppliers of defense equipment to Jordan are the United States and the United Kingdom.

Defense Opportunities

Defense opportunities in Jordan exist in the following areas:

- Vehicle spare parts
- Field telephone cable
- Military uniforms material
- Troop field equipment such as canteens, ponchos, boots, helmets, and bayonets
- Spare parts for the Hawk Missile system and F-5 aircraft
- Ammunition
- Rebuilding of tracked and wheeled vehicles
- Communications equipment
- Hawk System PIP III
- HMMWV vehicles
- Night vision equipment
- Ground surveillance radar
- Thermal/low light-imaging surveillance equipment.

Besides a general improvement in the vintage and quality of all hardware, the Jordanian Armed Forces (JAF) seek to acquire a wide range of equipment to support current requirements and light modernization. The armed forces completed its three-year (1992-1994) program for equipment sustainment and light modernization. Public news sources suggest that some new hardware purchasing and modernization program began in 1995.

Defense Procurement Process

The Jordanian Armed Forces (JAF) advertises procurement tenders for non-combat and non-lethal equipment and supplies in local daily newspapers. Purchases of combat and lethal equipment and supplies are executed through private contracts and selective tendering procedures. The JAF and the Royal Jordanian Air Force (RJAF) have separate procurement offices. No other government agency has jurisdiction over defense sales to Jordan. Sales of non-defense equipment and supplies to the government are done through the general supplies department. No direct contacts are permitted with the procurement officers at individual agencies if purchases are channeled through this department.

The Ministry of Defense revamped its procurement department in 1995. This measure included a wide reorganization among long-time officials in the procurement offices of the JAF and RJAF. This measure reflected the Government's intent to prepare the Army for a new role in project development as a result of the Peace Treaty signed with Israel. Accordingly, the Engineering Corps, Al-Hussein Mechanical Workshop and all other agencies with engineering functions and logistical support were reorganized to assume non-conventional, non-combat military tasks as well as new civilian tasks focusing on project development.

The reorganization of the procurement offices of the JAF and RJAF was also intended to prepare these organizations for bilateral and multilateral cooperative programs. This reshuffling will also commercialize certain procurement functions within the JAF and RAF to enable direct contracting and negotiation with local and foreign consultants as well as foreign suppliers. This systemic change has erased the need for procurement offices to acquire budgetary sanctions from the Ministry of Defense to initiate discussions with manufacturers. In addition, this reorganization has eased clearance sharing procedures between military intelligence and the procurement offices.

The Army is expected to play a major role, with the cooperation of the Ministry of Public Works and Housing, in the excavation and installation of infrastructure in the Jordan Rift Valley, east of Wadi Araba and various border points and/or lines with Israel and the Palestinian National Authority (PNA).

Diversification/Commercialization Opportunities

The Government of Jordan continues to maintain a conservative capital spending budget. Spending on capital projects and for capital equipment is carried out through aid programs (European Investment Bank and the Japan Overseas Development Bank), or through open financing by the International Bank for Reconstruction and Development. Total expenditures in this area for 1996 is estimated at JD 440 million ($617 million), of which $405 million will be generated from revenues and $212 million from loans and grants.

The following industry sectors are promising areas for U.S. firms interested in the Jordanian market.

Telecommunications, Transportation and Utilities

The Government recently passed a new Telecommunications Law (September 1995) and Public Power Law (March 1996) which deregulated these industry areas. In addition, 80% of the operational functions and transport routed operated by the Ministry of Transport have been privatized. Due to this massive deregulation and privatization, business opportunities in these industry sectors are highly promising.

Commercial Aircraft and Air Traffic Control

Regional airlines offering service between Jordan and Israel have been recently licensed coupled with the opening of the Marka and Queen Alia International Airports to foreign businessmen, offers some business opportunities in this area. In addition, the construction of the new Aqaba airport may yield strong opportunities for the sale of air traffic control equipment. Jordan's Civil Aviation Authority is currently upgrading and/or changing its ground and air-borne radio equipment which may translate into potential sales for U.S. firms.

Environmental Technologies

According to Dr. Saleh Al-Share, Director of the Department of the Environment, business opportunities in the environmental sector are promising; however, procurement opportunities depend on the GOJ obtaining international loans to finance pollution control and water resources equipment.

Law Enforcement Equipment and Systems

Local firms specialized in law enforcement services have reported few opportunities in this Government-controlled sector. However, opportunities exist for sales of alarm systems, security electronic systems and devices, and communications equipment for the Public Security Directorate.

Medical/Diagnostic Equipment

The Ministry of Health Procurement Control Section has indicated that all government and private hospitals need medical and diagnostic equipment sold under flexible trade terms. Seven additional government and private hospitals are expected to be built by the year 2000. Al-Hussein Medical City and other government hospitals are preparing to budget for the purchase of medical equipment in support of tele-medicine connectivity with the U.S. and Israel which could result in sales to U.S. firms.

Doing Business in Jordan

American firms interested in exporting to Jordan must appoint locally registered Jordanian agents/distributors since Jordanian law stipulates that no foreign firm may import goods into the country without appointing a registered agent. The agent's connection to the foreign company must be direct, without a sub-agent or intermediary. The Jordanian courts have jurisdiction over all disputes arising out of the agency/distributorship contract notwithstanding any agreement to the contrary. However, the choice of foreign laws to govern the agency/distributorship arrangement between the parties is permitted and can be enforced by Jordanian courts. A foreign company selling arms or munitions to the GOJ must either sell directly, through a regional office, or have a local representative with special clearance from the GOJ. Under current law it is illegal to have a commissioned agent for the sales of arms and munitions.

Establishing an Office

The Companies Act of 1989 provides procedural guidelines for registering foreign companies and establishing regional and representative offices. The registration law distinguishes between two types of foreign companies: "Foreign Companies operating in the Kingdom" and "Foreign Companies not operating in the Kingdom." The former applies to foreign firms seeking to establish branch offices to conduct business in Jordan. The latter applies to representative (i.e., regional) offices, which are not permitted to conduct full commercial activities in Jordan, or act as commercial agents and middlemen for business activities. However, they are allowed to serve as liaisons between their head offices and Jordanian or regional clients, and represent their companies' business interests in Jordan. Regional and representative offices may also be set up to coordinate and direct scientific and technical services for clients in Jordan. Foreign firms qualified to execute contracts in Jordan are encouraged to establish branch offices. The registration fee for a branch office is $360 if the parent company's capital is JD one million ($1.3 million) or less and $720 if more than JD one million. The registration fee to establish a regional office is minimal.

U.S. firms may establish joint Jordanian-American offices to do business in and from Jordan. However, Jordanian law requires that the Jordanian interest should be at least 51 percent.

Joint trading offices may engage in business activity, including trade, contracting, land, maritime and air transport. Joint offices are also allowed to engage in financial services and stock market operations through registered brokers.

Selling to the Government

The General Supplies Department is the central procurement agency for Government Ministries and state-owned Corporations. All sales to the Government fall under Procurement Regulation No. 32 of 1993 and Tenders Regulation No. 1 of 1994 on Tender Procedures and Conditions of Participation. Direct offers for local bids are not permitted. A local agent/distributor or representative must be appointed to represent the American bidder. Direct bids for tenders financed by international donors or the World Bank are permitted if stipulated by the tender announcement or documents.

Need for a Local Attorney

Firms operating in Jordan through registered branch offices or regional offices need an attorney in order to complete paperwork and registration requirements. A local attorney can provide continuous advice on laws and regulations affecting the business climate in Jordan. Appointing a local lawyer can also help protect product copyrights, patents and trademarks.

Tariffs and Import Taxes

All imports into Jordan are subject to import tariffs and taxes. Industrial raw materials and production plants, as well as capital equipment imported by licensed industrial projects, are exempted from tariffs. The ceiling on import tariffs on all goods except luxury items has been lowered from 70% to 50%. The tariff on luxury goods was lowered from 220% to 130% and the import tax on automobiles decreased from 330% to 220%. However, the base of products subject to sales tax was widened and the sales tax increased from 7% to 10% to offset the lost revenue from higher tariffs. In addition, the Council of Ministers has the authority to raise sales taxes at any time to offset tariff reductions.

Import Licenses

According to the Import and Export Regulation No. 74 of 1993, an import license is not required except in specifically-defined cases. The import license continues to be a requirement, but it is no longer a pre-import requirement. However, about 22 commodities, including telecommunication equipment, foodstuffs, medical equipment, and a wide range of engineering equipment still require an import license. These products are required to have a pre-permit from the relevant agency and an import license from the Ministry of Trade and Industry.

Export Controls

The Import/Export Law No. 14 of 1992 and the Import/Export Regulation No. 74 of 1993 govern general export control issues in Jordan. Enforcement of these controls is the responsibility of the Ministry of Finance/Customs and the Ministry of Industry and Trade, with Finance having jurisdiction over goods entering and leaving the Kingdom. According to Regulation 74/1993, no export license is required for Jordanian-made products, transit goods, free trade zone goods, re-exports, or goods entered under temporary status. Paperwork governing export controls consist of the Export Application, Export Declaration Statement and all other commercial documents, including the Customs Declaration.

Major Roadblocks to Doing Business

Non-competitive sea freight charges from the U.S. to Jordan and non-competitive prices of U.S. consumer products are major roadblocks to U.S. companies exporting to Jordan. On the Jordanian side, roadblocks to doing business in Jordan include: (a) weak government measures and policies to enforce regulations protecting foreign intellectual property rights; (b) unclear policies regarding the implementation of the secondary and tertiary aspects of the Arab Boycott of Israel; (c) restrictions on foreign capital ownership in business and trading sectors and general restrictions on foreign business ventures; and (d) lengthy customs clearance procedures and lack of coordination between the Ministry of Industry and Trade and the Ministry of Finance/Customs.

Protection and Property Rights

The Jordanian legal system protects property rights. However, no government measures are in place to enforce intellectual property rights laws in Jordan. The Jordanian Copyrights Law, which was passed by Parliament in 1992, protects foreign works that are registered in Jordan or subject to international or bilateral agreements signed by Jordan. Foreign works must be registered in Jordan for their protection. The Jordanian Copyrights Law deals with all aspects relating to the exclusive rights to (a) copy or reproduce works; (b) translate, revise, or otherwise adapt or prepare derivative works; (c) distribute copies of the work; and (d) publicly communicate.

Royalties may be remitted from Jordan under licensing agreements approved by the Ministry of Industry and Trade. Trademark and patent rights registered under Jordanian Law No. 33 of 1952 at the Ministry of Industry and Trade cover a period of seven years from the date of registration. A registration may be renewed once, for a total period of 14 years. Trademark fees are nominal. A foreign company may have its trademarks or patents registered in Jordan by sending a power of attorney to a trademark agent or a lawyer.

Regulatory System: Laws and Procedures

The Government is in the process of amending all legislation concerning the business climate in Jordan. In addition to the Investment, Telecommunication, Sales and Income Taxes Law which were ratified in October 1995, the Government is reviewing the Companies Act, Amman Financial Market Law, Commercial Agents and Middlemen Law as well as the Copyright law in an effort to provide a better investment and business climate for domestic and foreign business.

Import/Export Documentation

According to Article 40 of the Customs Law, every Customs Declaration must be supported by an original invoice certified by the Chamber of Commerce of the city where the goods originated, or by any other institution acceptable to the Customs Department. The invoice should be attested by the Jordanian Diplomatic Mission where the goods have originated. If there is no Jordanian consulate in the area of the exporter, the certification of the Chamber of Commerce in the area of the exporter may be accepted, pending the approval of the Customs Department Director.

The purchase price and origin of the goods should be stated on the invoices and all other documents. All invoices should describe the imported goods in Arabic. The local importer must obtain an import license which provides details of the origin, value and type of goods, country of origin, method of shipment, exporter's and shipper's details and the local consignee's name and address. The importer, or his clearing agent, must present a bill of lading with the declaration. This required document is used by Customs to verify the ownership of the goods. For Jordan-bound shipments forwarded through Syria, Iraq, and Saudi Arabia, the local importer, or his clearing agent, should present a Customs Declaration issued by the country of transit, called the "Neighboring Country's Declaration."

The Custom Department requires special permits for a large number of products, including foodstuffs, agricultural and animal products, satellite dishes and telephone equipment. These permits are issued by the responsible Jordanian Ministry or Agency. For example, the Telecommunications Corporation (TCC) grants permits for satellite dishes, and telephone equipment, the Civil Defense Department grants them for fire fighting equipment, and the TCC and Security Agencies grant them for alarm equipment equipped with radiowave components.

The Arab Boycott of Israel

The Boycott law has been replaced by new legislation prohibiting ownership of leasing of land by foreign nationals whose home country does not grant Jordanians reciprocal treatment. Accordingly, there is no legislation that discriminates against Israel or foreign nationals overall.

U.S. Government Points of Contact

The following is a list of helpful contacts for U.S. firms interested in the Jordanian market.

U.S. Embassy:

U.S. Embassy Defense Personnel:

Col. Michael Shaw, Chief, Military Assistance Program
MAJ John Taylor, Chief, Army Section

Tel: 011-962-6-820-101
Fax: 011-962-6-820-160

Economic/Commercial Section:

Gary A. Grappo
Economic/Commercial Counselor

Donald Hepburn
Economic/Commercial Officer

Thomas Pierce
Economic/Commercial Officer

Tel: 011-962-6-820-101, ext. 2558
Fax: 011-962-6-817-653

KUWAIT

KUWAIT

Overview

Kuwait maintains a small but relatively open economy. Although the petroleum sector dominates the country's export revenue, the Kuwait economy is diversifying into non-petroleum-dependent industrial sectors. GDP growth rates in the early 1990's averaged 9%. The United States is the largest source of Kuwait's imports with a 35% share. In the military sector, Kuwait maintains one of the highest defense spending rates per capita in the world. The combination of post-war economic growth and a strong demand for U.S. products yields many business opportunities for U.S. firms in both the commercial and defense sectors.

Defense Industry Environment

The Ministry of Defense (MOD) has signed defense cooperation agreements with the U.S., UK, France, and Russia, and has expressed interest in an agreement with China to upgrade the self-defense capabilities of the Kuwait Military, and to provide training in the deployment and operation of the newly acquired military equipment. Kuwait is expected to increase its purchases from all of these countries, and perhaps more so from its newer allies.

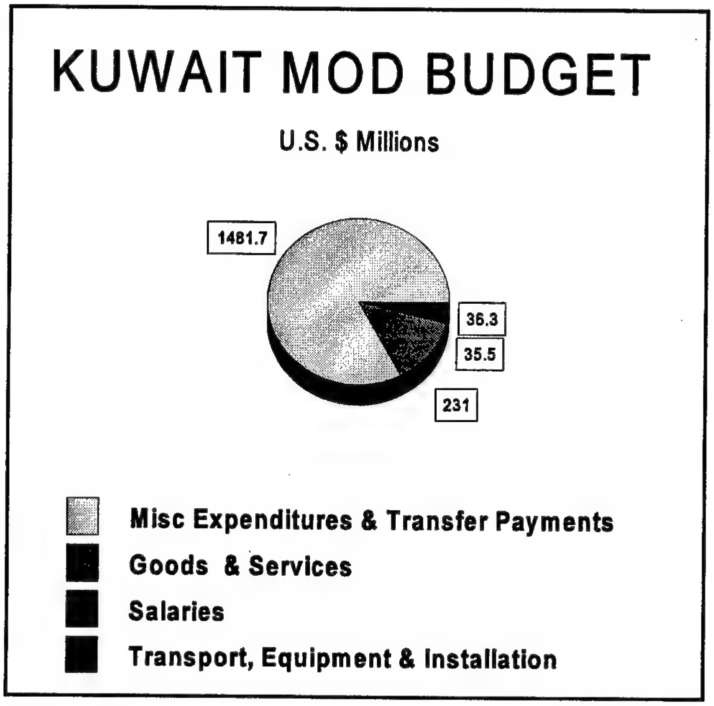
Implementation of these agreements is hampered by a shortage of military personnel. At optimum level, Kuwait's military will consist of approximately forty (40) thousand troops. Present strength is estimated at twenty (20) thousand in uniform.

The future trends of Kuwait's weapon systems procurement are to move towards higher technology equipment, due to the lack of manpower in the armed forces, and to adopt a more price-conscious purchasing policy as budget deficits persist.

It is also expected that future procurement of weapons will undergo tougher scrutiny on cost, financing and technical grounds by both the Ministry of Finance, which is responsible for allocating funds, and by the elected Parliament, which is responsible for examining Government expenditures. This trend may yield restrictions on vendors similar to those found in the U.S. Foreign Corrupt Practices Act.

Defense Budget Information

The FY 96/97 proposed appropriation for the Ministry of Defense (MOD) is KD 459 million (approx. $1.517 billion) to cover routine operations. The categories of the budget are outlined in the following chart:



The Ministry of Finance budget also includes a supplementary Defense Enhancement budget of KD 400 million ($1.32 billion) for FY 96/97. Therefore, the Kuwait Defense budget has two separate items. Established in 1992, the Defense Enhancement budget is funded at US$ 10.5 billion. These funds are to be spent over 10 years on major equipment and strategic military purchases.

A Military Procurement Committee was formed in 1994 with members from the Ministries of Finance and Defense. The MOD officials negotiate the technical aspects of the armaments, and the Ministry of Finance officials review tenders and negotiate prices.

Traditional Suppliers of Defense Equipment

Kuwait has no domestic defense production firms. Consequently, the MOD relies on many foreign firms to meet its defense needs.

The traditional suppliers of defense equipment to Kuwait are listed below.

U.S.:

AAI
AM General
Argosystems
BMY
Colt
Development Sciences, Inc.
Dyncorp
EDS
E-Systems

Environmental Chemical Corporation
General Atomics
General Dynamics
General Electric
Harris Communications
Intergraph
Hughes Aircraft
ITT
Kay And Associates
Litton Ingalls
Lockheed Martin
McDonnell Douglas
Olin Ordnance
Oshkosh
Raytheon
Rockwell International
Sikorsky
T-Com
Teledyne Industries
Textron
United Defense
Westinghouse

Austria: Steyr

Canada: CAE Link
CMC
GM Diesel Corporation
Western Star

Europe: MIC Consortium

France: Aerospatiale
Chantiers Maritimes de Normandie (CMN)
DCI
Eurocopter
Matra
Thomson CSF

Germany: Blohm and Voss
Faun
Lurssen Werft
Mercedes
Siemens

Hungary: Technika

Italy: Alenia
Fincantieri
Otomelata

Netherlands: Royal Schelde Shipbuilding

Norway: Norconsult

Russia: Rosvoorouzhenie
Smersh

Sweden: Ericsson
Volvo

U.K.: British Aerospace
GEC Marconi
GKN Defense
Huntington
MOAG
Shorts Brothers
VSEC
Vickers
Vosper Thorneycroft
Yarrow Shipbuilding Ltd.

Defense Opportunities

In 1995-96, MOD will take delivery of substantial amounts of military equipment and it is soliciting qualified companies to perform contract logistic support (CLS) services. To date, one contractor has been selected to provide CLS services for the M1A2 Tank at a cost of $31.9 million over four years. Other CLS contracts likely to be awarded in 1995/96 are for support to the Warrior Tank Support Vehicle, the Patriot Missile Defense System, the F-18 Aircraft, and possibly an attack helicopter.

New Systems/Major Platforms

Major defense trade opportunities exist in the MOD at the Ministry level, as well as in Kuwait's Land Forces, Air Force, and Navy. Most of the larger sales are handled through the U.S. Government's Foreign Military Sales (FMS) program, while the smaller sales tend to be procured on a commercial basis. At the MOD level, opportunities exist in the areas of information technology, specifically command and control systems integration, and medical hospital management and equipment upgrades.

In the Kuwait Land Forces (KLF), opportunities exist for American firms to supply trucks, artillery, and light armored vehicles; to remove and/or refurbish ordnance; to refurbish artillery; to integrate command and control systems; and to maintain tanks, trucks and other KLF vehicles. Within the Kuwait Air Force (KAF), opportunities exist for American firms to supply helicopters and unmanned aerial vehicles; to maintain fighter aircraft; and to integrate command and control systems.

In the Kuwait Naval Forces (KNF), opportunities exist for American firms to supply ships, electronic combat systems, missiles, and to integrate command and control systems.

Outlined below is a list of the Kuwait MOD's potential major defense projects.

POTENTIAL DEFENSE PROGRAMS		
Military Service	***Project***	***Cost***
Ministry of Defense	**JOC System Integration**	**$500M**
Air Force	**Attack Helicopters**	**$600M**
Air Force	**Utility Helicopters**	**$500M**
Air Force	**Missiles**	**$250M**
Land Force	**10 4 ton Military Trucks**	**$100M**

POTENTIAL DEFENSE PROGRAMS		
Land Force	**5 Ton Trucks**	**$200M**
Navy	**Offshore Missile Vessels**	**$1B**
Navy	**Minesweepers**	**$300M**
Navy	**Naval Surveillance Aircraft**	**$300M**

In addition to the projects listed above, the Government of Kuwait (GOK) has recently decided to enlarge its National Guard and to increase the National Guard budget, which is expected to create opportunities for U.S. suppliers of armored personnel carriers and other material.

Defense Procurement Process

With the exception of FMS sales, all major procurements are done on a commercial basis. For commercial purchases above KD 5,000 ($17,000), Kuwait uses a competitive selection (tender) process. This process requires vendors to respond to an invitation for bids, submit a bid package, and comply with a schedule and formal contracting rules and specifications. This process, however, does not apply to strategic military purchases which are handled through the Military Procurement Committee. Price and satisfaction of MOD technical requirements are important factors in MOD's evaluation process. Information on financing, including the vendor's use of export credit financing, is also required.

MOD has several internal committees that are responsible for the technical evaluation of bids. The Assistant Undersecretary of Defense for External Supply is responsible for the administrative aspects of purchasing military equipment and services. The majority of defense procurements are done on a government-to-government basis, but a substantial number of procurements are done commercially.

The MOD prohibits the payment of commissions to defense agents. Agents, however, may charge U.S. suppliers set fees for specified services, as long as the amount of the fees does not vary with the size of the sale. U.S. companies have found it practical and convenient to have a local agent/representative provide them with market intelligence and take care of necessary formalities in the procurement process. Tenders, bidders' conferences, awards and re-tenders are announced in the Official Gazette of the Government of Kuwait (Al Kuwait Al Youm), which is available in English translations.

Barriers to U.S. Firms

While U.S. defense firms may have an edge over other companies due to their role in the Gulf War, they face certain local commercial barriers that tend to hinder their operations in Kuwait. The following are examples:

- Protracted government procurement process
- Lack of a double tax treaty with the U.S.
- Lower margins due to offset requirements
- Restrictive immigration and labor laws

Lack of financing of U.S. military exports by the U.S. Eximbank is another major barrier for U.S. companies. Most foreign competitors offer defense export financing for all or some of their products through their national export credit agencies. The Ministry of Finance (MOF) has been recently appointed as the distributor of funds to MOD suppliers.

Listed below are the procurement agencies and decision-makers involved in the defense acquisition process:

Ministry of Defense
Minister: H.E. Sheikh Ahmed Homoud Al Sabah
Undersecretary: Dr. Homoud Al Otaibi
P.O.Box 1170, Safat
Kuwait 13012

Ministry of Finance
Minister: H.E. Mr. Naser A. Al Rodhan
Undersecretary: Mr. Abdul-Mohsen Al Hunaif
P.O.Box 55, Safat
Kuwait 13001

Military Procurement Committee
Chairman: Mr. Fawzi Al-Qassar
Assistant Undersecretary, Ministry of Finance
P.O.Box 55, Safat
Kuwait 13001

Diversification/Commercial Opportunities

The Kuwait market offers a wide variety of commercial opportunities for U.S. firms. The following is a brief description of industry sectors that are "best prospects" for U.S. exporters.

Law Enforcement Equipment

U.S. suppliers of law enforcement equipment have a $100 million market in near term projects like the border security program and the Shuaiba Industrial Area. In addition, the Directorate General of Civil Aviation plans an extensive security system for the Kuwait International Airport. The Ministry of Interior proposes to place all banks and ministries under a central alarm system. The Ministry of Interior also plans to offer greater protection to ministers and other VIPs. This would include providing them armored vehicles, emergency signaling devices, and personal body protection accessories.

Commercial Aircraft and Aviation Equipment

Opportunities exist for U.S. suppliers of commercial aircraft and aviation equipment. While Airbus has supplied the bulk of Kuwait Airways' fleet of planes, Kuwait Airways recently procured two Boeing 777's. This opened a $30 million market for suppliers of aircraft parts and support equipment such as airplane engines, communications equipment, radars, etc.

Airport and Ground Support Equipment

Kuwait also has an $80 million market for airport and ground support equipment. The GOK's Directorate General of Civil Aviation has a master plan prepared by NAACO of the Netherlands to expand the existing airport to accommodate more traffic and passengers. This major project will require various types of equipment, including navigational instruments, radars and conveyors.

Medical/Diagnostic Equipment

The market for medical/diagnostic equipment is estimated at $50 million. The GOK is planning to expand its medical services by replacing, upgrading, and modernizing its existing medical facilities and equipment. The Ministry of Public Health is planning to purchase over 20 ambulances, anesthesia equipment, infusion pumps and other diagnostic equipment. The Government's plan to privatize the public health care sector will give U.S. medical/diagnostic equipment suppliers and hospital management companies numerous new business opportunities.

Environmental Equipment

Environmental equipment suppliers can expect increased opportunities as the Kuwait Government continues an intensive campaign to clean up Kuwait, sponsored by the official Kuwait Environmental Action Team (KEAT), a partnership of government agencies and the private sector. In addition to strengthening laws to protect the environment, KEAT is responsible for cleaning up the remaining oil lakes of the Gulf war and assessing the environmental impact of major projects.

Recycling Equipment

The Kuwait Institute for Scientific Research (KISR) is also planning to upgrade Kuwait's environment through various projects such as the recycling of sewage, paper, waste products, and materials. Projects such as these should open up new opportunities for U.S. companies specialized in these fields.

Oil and Gas Field Machinery and Service

The oil and gas sector grew very rapidly in the past year. Both the state-owned Kuwait Oil Co. and Kuwait National Petroleum Co. embarked on major expansion programs. The planned construction of projects like the petrochemicals complex, gathering centers, pipelines, refinery upgrades, the drilling of oil wells, and the rebuilding of storage tanks open many opportunities for American goods and services. In addition, the petrochemicals joint venture between the Petrochemicals Industries Co. and Union Carbide will create opportunities for the construction of plastics and specialty chemical downstream industries.

Computers and Peripherals

Many major American computer firms are present in the Kuwait market and account for about 90 percent of the total imports of mainframes, minicomputers, microcomputers and data communications equipment. U.S. image processing systems are gaining wider acceptance. Several upcoming major projects will create an excellent potential market for U.S. computer equipment.

Computer Software

The U.S. firm Microsoft dominates the market. The following types of applications software would sell well in Kuwait: Image processing systems, banking, insurance, hospital management, computer networking, education, training, design support, graphic design, and business solutions. U.S. firms should assess their prospects in this market carefully as there is presently no copyright law in Kuwait.

Automotive Parts and Service Equipment

Demand for automobile spare parts and service equipment will likely continue to be high due to the tough weather conditions, poor after-sales service, and high accident rate. New car sales increase by 30,000-37,000 annually. U.S.- made cars have the majority share of this market. GM, Ford, and Chrysler (including Jeep) are represented locally. Japanese and European motor companies are also present. While genuine spare parts are favored, spare parts are widely available.

Telecommunications

The Ministry of Communications (MOC) provides almost all communications services to subscribers through 32 exchanges, 26 of which are fully digital. The Ministry needs $11 million to install 70,000 new telephone lines. Several international companies such as AT&T, GPT (British), Alcatel (French), Fujitsu (Japanese), and Ericsson (Swedish) provide switches, though Ericsson traditionally dominates the market. Ministry plans include an integrated services digital network (ISDN), but this has been postponed due to low demand. MOC provides ten services including: call transfer, call forwarding, disconnecting the international dialing number, conference calls, call-waiting, hot line service, and status of outstanding bills. The building of tens of thousands of housing units in the next few years will increase the demand for telecommunications services. There are plans to build two new satellite earth stations, but these are on hold due to budgetary restraints. The Mobile Telecommunications Company (MTC) provides mobile telephone services to over 70,000 subscribers, and paging services to over 110,000 subscribers.

Scientific Laboratory Instruments

The existing public and private hospitals, private laboratories, Kuwait University, and Kuwait Institute for Scientific Research form a good market for scientific laboratory instruments. Although the 1995 figures indicate a decline in imports, a 5 percent increase is expected in 1996 because of plans for new private hospitals.

Key Ministries for Commercial Product Areas

Major business opportunities exist in Kuwait's large public sector procurements administered by entities such as the following:

Directorate of Civil Aviation
P.O.Box 17, Safat
13001 Kuwait
Tel.: (965) 431-0269
Fax.: (965) 471-0535

Kuwait Airways Corporation
P.O.Box 394, Safat
13073 Kuwait
Tel.: (965) 242-2493
Fax.: (965) 243-4906

Kuwait National Petroleum Co.
P.O.Box 70, Safat
13001 Kuwait
Tel.: (965) 242-0120
Fax.: (965) 243-3839

Kuwait Oil Company
P.O.Box 9758, Ahmadi
61008 Kuwait
Tel.: (965) 398-3661
Fax.: (965) 398-4111

Kuwait Petroleum Corporation
P.O.Box 26565, Safat
13126 Kuwait
Tel.: (965) 245-5455
Fax.: (965) 242-3371

Ministry of Communications
P.O.Box 318, Safat
13004 Kuwait

Tel.: (965) 481-9033
Fax.: (965) 484-7058

Ministry of Electricity and Water
P.O.Box 12, Safat
13001 Kuwait
Tel.: (965) 489-6000
Fax.: (965) 489-7484

Ministry of Interior
P.O.Box 11, Safat
13001 Kuwait
Tel.: (965) 255 5933
Fax.: (965) 252 3228

Ministry of Oil
P.O. Box 5077, Safat
22795 Kuwait
Tel.: (965) 241-5201
Fax.: (965) 241-7088

Ministry of Public Health
P.O.Box 5, Safat
13001 Kuwait
Tel.: (965) 476-2385
Fax.: (965) 241-9313

Ministry of Public Works
P.O. Box 8, Safat
13001 Kuwait
Tel.: (965) 244-9301
Fax.: (965) 242-8362

Petrochemical Industries Co.
P.O. Box 1084, Safat
13011 Kuwait
Tel.: (965) 242-2141
Fax.: (965) 240-5791

Public authority for Housing Care
P.O.Box 23385, Safat
13094 Kuwait
Tel.: (965) 433-0055
Fax.: (965) 431-9121

Doing Business in Kuwait

Visiting U.S. businessmen have no communication problems with their Kuwait counterparts as English is widely spoken and many Kuwaitis have been educated abroad. Government hours are from 8:00 a.m. to 2:00 p.m. five days a week (Saturday through Wednesday).

Private companies work six days a week (Saturday through Thursday). Some companies work from 8:00 a.m. to 5:00 p.m.; others work from 8:00 a.m. to 12:00 p.m. and from 4:30 p.m. to 8:30 p.m. On Thursdays, companies work from 8:00 a.m. to 1:00 p.m.

Trade Regulations

A U.S. defense contractor may sell directly to MOD. MOD discourages suppliers from using agents and prohibits the payment of commissions to agents.

MOD'S practice of not permitting agents contrasts sharply with the rest of public procurement in Kuwait, which requires agents to represent foreign suppliers. The Commercial Law No. 36 of 1964, as amended by the Commercial Law No. 68 of 1980, regulates commercial agency agreements. This law provides that foreign companies wishing to sell to any ministry (except MOD in practice) without setting up a Kuwait registered legal entity may only do so through a Kuwait national agent if the value of the sale exceeds KD 5,000 ($17,000).

The above law covers the following:

- Commercial agents who undertake to promote a product/service for a company, negotiate deals on the principal's behalf, conclude such deals and carry them out.

- Distributors that promote, import, stock, and distribute the principal's products in the distributor's own name.

- Service agents or sponsors for foreign companies that intend to carry out government contract work as per Article 24 of Commerce Law No. 68/1980.

Tariffs in Kuwait do not inhibit the sale of U.S. or other foreign defense exports because they are very low - only 4% in most cases. Tariffs are not expected to increase beyond the 8% level recently agreed to within the Gulf Cooperation Council (GCC) because there is no defense manufacturing industry in Kuwait seeking protection from foreign competition.

Requirements for Import Licenses, End-Use Certification

Importers do not need an import license for each product to be imported or for each shipment. An importer does, however, need to obtain an annual import license from the Ministry of Commerce and Industry which authorizes the import, on a multiple-entry basis , of any amounts of goods from any country during its one-year term. To obtain this license, importing companies must fulfill the following conditions:

- They must be registered in the Commercial Section at the Ministry of Commerce and Industry, as well as with the Kuwait Chamber of Commerce and Industry.

- The Kuwait Shareholding in the capital of the company must be at least 51%.

A special import license from the Ministry of Interior is required to import certain kinds of goods, such as firearms and explosives.

Kuwait military authorities are willing to sign U.S. end-use certificates.

Technology Transfer Regulations

Kuwait does not require U.S. companies to transfer technology to Kuwait as a condition of purchase, although this issue may come up in negotiations of offset benefits. Kuwait welcomes co-production with U.S. suppliers.

Intellectual Property Rights

Kuwait is not currently a member of any international intellectual property rights convention, but it does have laws providing some patent, copyright, and trademark protection. These laws are not actively enforced, except for spot customs checks for imitation or counterfeit goods and/or goods bearing infringing trademarks.

Intellectual property rights protection remains extremely lax in Kuwait. Kuwait is not a party to any worldwide conventions for the protection of intellectual property rights. While it has had patent and trademark laws since 1962, the penalties are so low (a maximum fine of $2,100) as to be ineffective in deterring illegal activities. The GOK is currently in the process of drafting new IPR laws.

Kuwait's patent law excludes certain chemical inventions involving food, pharmaceuticals and medicines and offers a term of protection of only fifteen rather than 20 years. Patent laws in Kuwait are under official review. Current laws do not meet currently accepted international standards. Kuwait has been a member of the GATT since 1963 and has signed the World Trade Organization agreement.

U.S. Government Points of Contact

Listed below are useful points of contact for U.S. firms interested in the Kuwait market.

United States and Foreign Commercial Service
Commercial Counselor: Mr. Johnny Brown
Embassy of the United States of America
Tel.: (965) 539-5307/8, ext. 2392/2430
Fax.: (965) 538-0281
Unit 69000, Box 10
APO AE 09880-9000

Office of Military Cooperation, Kuwait
Commander: Brigadier General Stephen Rippe
Embassy of the United States of America
Tel.: (965) 539-5307/8, ext. 2558
Fax.: (965) 539-0974
Unit 69000, Box-13
APO AE 09880-9000

American Business Council - Kuwait
President: Mr. Bill Ennenbach
P.O.Box 29992, Safat
13159 Kuwait
Tel.: (965) 243-0718
Fax.: (965) 240-9450

MOROCCO

MOROCCO

Overview

Despite a sharp recession in the early 1990s, Morocco's economy has recovered and has maintained a steady growth rates in the 5-8% range during the mid 1990s. Although the economy is heavily dependent on mining and agriculture, the manufacturing sector is increasing which may result in a wide variety of opportunities for U.S. firms.

Defense Industry Environment

Very little information is available about the Moroccan defense budget. Prior to the elimination of Foreign Military Financing (FMF), the U.S. had some idea of where U.S. secured funds were projected to be spent. Currently, there is limited information concerning anticipated expenditures. However, public sources suggest that the defense budget has remained constant at $1.3 billion or approximately 3.8% of GDP since 1994.

There are several items that the Moroccan military would like to obtain, preferably under the Southern Region Amendment (SRA) status (e.g no cost to the Moroccan MOD). Despite the generally static military financial outlook, there have been recent Moroccan military commitments ranging from US $5-30 million. It is surmised that these items have top level interest and funding is provided from the National Budget or another country. There is no known domestic defense industry. The traditional suppliers of Moroccan defense equipment have been France, Spain, and Germany.

Defense Opportunities

The following is a list of potential defense trade opportunities within the Moroccan Ministry of Defense (MOD).

Upgrade/Replacement

There have been a substantial number of recent transfers of defense items to Morocco under the SRA arrangement. These items have been provided on an "as is, where is" basis. Upgrades and logistical, training, and maintenance support for the following items may provide potential business for U.S. defense contractors:

- Aircraft C-130 (Maintanence/Spares/Service Life Extension)
- M6OA1/M48 A5 Tanks (Training/Spare Parts)

- F-5 Aircraft (Maintanence/Spares/Service Life Extension)
- LST and Hydrographic Vessels
- Maintenance Rebuild Facility for Tactical Wheeled Vehicles
- Oil Storage/Port Fuel Facility Turnkey Project
- CUCCV Vehicles

New Systems

In addition to the items received by the MOD via the SRA, two new defense systems have recently been acquired and may need follow-on training and maintenance support:

- High Mobility Multi-purpose Wheeled Vehicles (HMMWV)
- M60A1 Tank Communications

MOD plans for the foreseeable future will focus on the maintenance of recently acquired equipment with limited new acquisitions, due to budget constraints.

Defense Procurement Process

There are no formal or publicized procurement procedures for the sale of defense items to the Moroccan Ministry of Defense. Selection of firms to bid is done on an ad-hoc and closely held basis. The key to obtaining a request to bid from the MOD is to develop close personal relationships either through a direct visit or through participation in U.S./European defense shows. MOD representatives attend most of these international defense trade shows. For example, the Moroccan Army representatives attended Eurosatory 94, the first time that U.S. companies participated in this major defense trade show. This event was very successful and we suggest that more U.S. companies participate in similar events. The Commercial Service and the Office of Defense Cooperation within the U.S. Embassy in Paris may be contacted to provide details on participation.

The MOD is the only Moroccan Ministry involved with military procurement and U.S. firms face no formal barriers. Nevertheless, as further discussed below, U.S. firms are strongly advised to use local representatives with solid French language abilities and to produce all sales and service literature in French.

Contact with the MOD procurement officials can be best accomplished through the U.S. ODC in Rabat. Another major connection with the MOD in the United States is through the following point of contact:

Col-Maj El Kostali
Defense Attache
Embassy of Morocco
1601 21st Street, N.W.
Washington, D.C. 20009
Tel.: 202-462-7999
Fax: 202-265-3606

MOD procurement is accomplished by direct negotiations, or more commonly, through foreign government tenders. There is no central purchasing bureau or tendering authority. The MOD issues its own tenders and deadlines vary from 30 to 90 days depending on the complexity of the project. Tenders are not automatically published in local newspapers. All bidding documents are in French. They provide the technical requirements and the administrative clauses common to all government projects. A bidder's administrative package should include two copies of a statement of honor indicating the name, address, activity, current account number and bank guarantee. The technical package should include technical and human resources of the company and its references. The proposal must be in French and use the metric system.

Contracts are usually awarded to the lowest qualified bidder. Generous terms of credit offered by a foreign supplier or government help to ensure a successful bid.

Key Logistics/Procurement Officials

Director Signals/Army Procurement - General Zirab
Army Logistics - General Ziati
Chief Navy Officer - Captain Triki
Air Force Chief of Staff - General Mrani
National Defense Agency - General Achahbar

Diversification/Commercial Opportunities

Near term investment opportunities in Morocco appear to be quite good. Traditionally, the countries which have been taking the most advantage of these opportunities are France, Spain, and Germany. The U.S. appears only beginning to attempt to break into the Moroccan defense market. The recent success of companies with a major $30 million contract for high mobility multi-purpose wheeled vehicles (HMMWV) was the result of a two year marketing effort. This indicates that the U.S. defense industry must take a long-term approach to the market rather than look for a quick return.

There is currently a major opportunity developing as a result of the sale of Moroccan defense and government facilities. The parliament recently passed a law mandating a substantial effort to relocate military facilities away from major Moroccan cities. The abandoned urban

properties are then to be sold to the private sector and the proceeds used by the military to build new facilities in less developed areas of the country.

Opportunities in dual use or related technology fields include potential sales of observation aircraft for use by the Gendarmerie and the Moroccan Navy for fisheries protection and drug interdiction efforts. U.S. firms have also sold ground surveillance radar used against drug traffickers, including training in maintenance and spare parts support. The Moroccan air traffic control system, which serves both military and civilian assets, is currently being upgraded. However, there may be additional requirements for training and maintenance. Military medicine is an unexploited area. primarily due to lack of contact. Another promising area is medical/diagnostic (x-ray, and ultra sound) equipment.

In addition to the areas mentioned, the following is a brief discussion of the industry sectors that are deemed "best prospects" for U.S. firms in the Moroccan market by the Commercial Service.

Water Resources Equipment and Services

The market for water distribution equipment in Morocco will reach around $1.5 billion in the next 20 years. Much needed investment in the distribution sector will stimulate this market to recover the idle production capacity and reduced output it is experiencing after another year of drought. The lower import duties imposed on water resources equipment will also cause imports to rise from $320 million in 1995 to around $370 million in 1996.

The largest foreign suppliers are France with 21%, Germany with 18% and Italy with 17%. The above number may change rapidly as Germany's market share is increasing rapidly due to readily available financing and aggressive marketing.

Electrical Power Systems

Investment in electric power generation and distribution facilities has been significant over the last two decades; however, with the recent surge of industrial growth, much more investment is needed. In general, U.S. private investment in Morocco is very small in comparison with EU, particularly French, investment. In the past several years, the U.S. share of total imports has fluctuated between 0.5 and 12.5% depending on changes in demand for U.S. origin products. Morocco's demand for electricity is growing fast. The National Office of Electricity is committed to satisfy this demand from both urban and rural areas. A 1200 MW power plant is scheduled to be build in Jorf Lasfer and two other projects are scheduled for bid resumption later this year: a 300/600 MW steam thermal power station and a 300/500 MW combined-cycle power station.

Pollution Control Equipment

The current environmental market in Morocco is estimated at $150 million annually. Due to increased environmental awareness, future national market assessments predicts a cumulative $5.2 billion, most of which will be spent on municipal wastewater collection and treatment by the year 2011. French and other European firms have significant advantages in this market. They have developed extensive local marketing organizations, and their governments provide soft loans. However, U.S. firms can still find many attractive opportunities in that the market is growing rapidly which is creating opportunity for firms with improved technologies. This will be particularly important in sectors such as pollution prevention, where U.S. firms have leading edge technologies.

The following subsectors seem to be the most promising for U.S. suppliers: municipal water and wastewater; waste recycling; industrial wastewater; air pollution; water purification; municipal solid waste; mobile source air pollution; air and water monitoring and testing and environmental consulting.

Telecommunications

The Moroccan market for telecommunications is growing rapidly. It is one of the most dynamic in North Africa. Telecommunications infrastructure is an essential link for all sectors and the development of the national economy and the opening of the market to foreign investments cannot be achieved without it. Recognizing this, the Government is making considerable efforts to develop a modern telecommunication network based on the most advanced technologies. The Government is taking steps to privatize and expand the growing mobile phone market.

The best sales prospects for U.S. manufacturers are in the high-tech areas where the U.S. continues to maintain a competitive edge over other countries. U.S. firms have a good reputation and are considered the pioneers in new telecommunications technology.

Medical Equipment

The Government of Morocco is currently making considerable efforts to reestablish sustainable public health programs nationwide and to improve overall health care for the Moroccan people. It plans to modernize equipment, to raise in-patient capacity of hospitals and improve efficiency in hospital operations. The World Bank and other multilateral financing institutions grant substantial loans to Morocco in the health sector. U.S. equipment is considered by Moroccan medical officials as efficient and modern. U.S. technical and managerial expertise in the health field is highly regarded. With this reputation, U.S. exporters could benefit tremendously from reforms in the health sector. All types of electro-medical apparatus are needed since there is no local production.

The most promising sectors are: X-ray machines and parts; electrocardiographs; medical electricity apparatus; diagnostic equipment, dental electro-medical equipment and CAT/MRI/radiology equipment and disposable medical supplies.

Computers/Peripherals & Computer Software

Current Moroccan market for computers and software is estimated at $65.0 million. The market is expanding rapidly and we expect it to continue to grow by 30% over the next three years. Imports supply 100% of total market. The U.S. leads with a 55% share of the import market. The Moroccan market for computers is open to U.S. products and technology. The growth in financial services and the stock exchange should also spur this sector. The Government believes that advanced technology is a means of catching up to the developed world. Computerizing an economy, given the pace of technological change, requires continual updating of materials. U.S. suppliers have opportunities to export computers and related equipment in this market where U.S. equipment is generally respected for its technical sophistication and high quality.

Architectural, Construction, and Engineering Services

Imported engineering services supply 90 percent of the entire Moroccan market. We see a 20% annual growth in the demand for engineering expertise in Morocco for major infrastructure projects. These projects, funded by the World Bank and other multilateral financing institutions, are essential for the Moroccan economy. Lack of local expertise in this field, create more opportunities for U.S. engineering firms to provide their service in this growing market. U.S. engineering companies are known for the high quality of their services and their expertise in conducting studies in various sectors. There is a great opportunity for U.S. engineering firms to export technology in this market especially in the fields of energy, mining, port development, water resources and construction.

Mining Industry Equipment

Globally, the mining and paramining industries make up more than 8% of the national GDP. They provide employment for more than 3% of the active population and 16% of the national industry. Mining is one of Morocco's most important industries. By far, the most relevant mineral is phosphate. The country depends heavily on it as the country's main source of income. This will not change in the foreseeable future especially if one looks at the upcoming investment projects, heavily inclined to pursue the exploitation of this mineral. Morocco is also developing local production of phosphoric acid, chemical fertilizer, copper, fluorite, lead, iron, and anthracite. Most of the large equipment supplied to Morocco carries U.S. brand names, whether originating from the U.S. or from European subsidiaries of U.S. multinationals.

Key Product Area Ministries

- Ministry of External Trade and Investment
  63, Avenue Moulay Youssef
  Rabat, Morocco
  Tel: 011-212-7-70-33-63
  Fax: 011-212-7-73-50-23

- Ministry of Transportation
  Nouveau Quarter Administratif
  Rabat, Morocco
  Tel.: 011-212-7-77-42-66

- Ministry of Interior
  Division De L'Environnement
  Quarter Administratif
  Rabat, Morocco
  Tel.: 011-212-7-76-33-57

- Ministry of Public Health
  335 Avenue Mohammed V
  Rabat, Morocco
  Tel.: 011-212-7-76-11-21

- Ministry of Finance
  Ancien Quartier Administratif
  Rabat, Morocco
  Tel.: 011-212-7-76-09-43

- Office National Des Aeroports
  Aeroport De Casablanca-Mohammed V
  Casablanca-Nouasseur, Morocco
  Tel.: 011-212-2-33-90-05
  Fax: 011-212-2-33-39-01

- Gendarmerie Royale
  Rue Du Congo
  Rabat, Morocco
  Tel.: 011-212-7-72-75-01

Doing Business in Morocco

Customs Requirements

Customs requirements have been relaxed so that most products can now be imported easily although most goods are subject to customs duties at rates up to a maximum of 35 percent of the value of the item. A surcharge of 12.5 percent must also be paid. A value added tax of between 7 and 19 percent is payable on imported goods. Membership in the GATT has required Morocco to liberalize its import policies. In 1991, a new Foreign Trade Act was passed reversing a legal presumption of import protection. Currently, less than nine percent of product categories still require import licenses, and the government is moving ahead with tariff reform.

Restrictions on Foreign Competition

There is no specific protection policy for local industries against foreign competition. Morocco continues to liberalize trade by gradually removing the requirements for import licensing and reducing import duties. The granting of an import license is a lengthy process, requiring approval from each concerned sector. Nevertheless, such licenses are routinely granted.

Teaming With Local Firms

Teaming with a local firm, representative, or trading company is not required by law. However, to expand market share, U.S. suppliers should sell their products through well established local distributors who know the market. Moroccan tender documents are written in such a way that no U.S. company will achieve a maximum evaluation score. As it is obvious that defense project decisions will involve input from various Ministries and that a number of government officials will be involved in each stage of the evaluation, U.S. firms are advised to obtain the assistance of a local partner who may have some knowledge or at least knows who to contact when the time for a decision nears. A local partner will also enable a U.S. company to promptly submit the tender offer. The local partner can also provide continuous support during the evaluation period, since companies will undoubtably be asked to verify parts of their proposals to the evaluating committee.

Patents/Intellectual Property Rights

The Moroccan legal system generally protects and facilitates acquisition and disposition of property rights, including intellectual property rights. Morocco has a relatively complete regulatory and legislative system for the protection of intellectual property. It is a member of the World Intellectual Property Organization (WIPO) and is a party to the Berne Copyright, Paris Industrial Satellite Convention, and the Hague agreements for the protection of intellectual property.

U.S. Government Points of Contact

Listed below are points of contact as well as programs sponsored by the Commercial Service for U.S. firms interested in doing business in Morocco.

Embassy Support for U.S. Firms

Gold Key Service - The U.S. Commercial Service within the Embassy offers a tailored service for U.S. firms planning to visit Morocco. It combines market research, assistance in developing sound market strategy, orientation briefings, introductions to potential partners, interpreter for meetings, and effective follow-up planning.

Agent/Distributor Service - A customized search helps identify agents, distributors, and foreign representatives for U.S. firms based on the foreign companies' examination of U.S. product literature.

U.S. Embassy

Albert Nahas
U.S. & Foreign Commercial Service
(US&FCS)
American Consulate General
8, Blvd. Moulay Youssef
Casablanca, Morocco
Tel: 212-2-26-45-50
Fax: 212-2-22-02-59

Col. Grant Lorenz, USA
Chief Ground Section
Office of Defense Cooperation (ODC)
American Embassy Rabat, Morocco
Tel: 212-7-76-22-65. ext. 2166
Fax: 212-7-76-07-74

U.S. Trade Associations in Morocco

Mr. Jaloul Ayed
President
American Chamber of Commerce
18, Rue Colbert
Casablanca, Morocco
Tel: 212-2-31-14-48
Fax: 212-20-31-66-07

SAUDI ARABIA

SAUDI ARABIA

Overview

Nominal 1995 GDP for the Kingdom of Saudi Arabia was $128.7 billion, representing a 4.3 percent growth over 1994 GDP. The industrial component of the Saudi private sector was the fastest growing segment of the economy, growing at about seven percent.

Saudi Arabia continued its austerity program with the 1995 government budget, but nevertheless ran a deficit for the year; its thirteenth consecutive shortfall. The Saudi Government borrowed from domestic sources to finance the vast majority of the 1995 budget deficit, increasing total domestic and foreign debt (excluding arrearage) to over $90 billion at the end of 1995, roughly 70 percent of GDP.

In order to reduce its budget deficit for 1995, the Saudi Government raised charges on energy, electricity, water, telephone, worker and visa fees, and airfares at the start of the year. Concurrently, the Saudi Government cut budgeted expenditures by six percent, reducing allocations for education and defense and security but raising allocations for transportation and communication, health and social services, and infrastructure. Meanwhile, the Kingdom continues to study privatization as a medium-term fiscal reform measure, but most observers do not expect the sale of state-owned firms to begin in 1996. Saudi Arabia also represents a growing market for U.S. goods and services. Saudi Arabia was America's sixteenth largest trading partner in 1994, consuming $6.0 billion of non-military U.S. goods. Despite budget austerity measures, a growing Saudi economy coupled with the strong reputation of U.S. products may yield a wide variety commercial and defense opportunities for U.S. firms.

Defense Industry Environment

The United States and Saudi Arabia have enjoyed a strong, close relationship since the establishment of diplomatic relations in November 1933. Located between two of the world's most critical waterways -- the Arabian/Persian Gulf and the Red Sea -- Saudi Arabia is key to controlling the movement of world oil trade and a large amount of commercial and military traffic, both on the water and in the air.

While the Saudi defense budget is not a public document, it is estimated that between 30 to 35 percent of the government annual budget is allocated to defense spending. The Kingdom's defense budget accounts for an average 12.5 percent of GDP, one of the highest rates in the world, and oil export earnings dictate, to a large extent, Saudi defense purchases.

The U.S. has a large Foreign Military Sales (FMS) program in Saudi Arabia, including the F-15, AWACS, missiles, air defense weaponry, military vehicles, and other equipment. A U.S. Military Training Mission provides training and support for these weapons and other security-related services to the Saudi armed forces. A similar program assists the Saudi Arabian National Guard. Saudi and American security interests coincide in support of a stable and peaceful Middle East region, ensuring economic development and prosperity for all concerned parties.

Iran and Iraq pose the most serious security threats to Saudi Arabia and other countries in the Arabian Gulf. This threat is primarily military, insofar as the two states threaten the secure flow of oil from the Arabian Gulf to world markets. In addition, Iran shelters hegemonic ambitions over the Gulf region, aiming to expand its influence over radical Islamist forces, employing subversion and terrorism to realize its goals.

Three independent bodies are charged with security duties: the *Ministry of Defense and Aviation* which uses four uniformed services to protect against external military threats; the *Saudi Arabian National Guard* which is responsible for defending vital internal resources (e.g., oil fields and refineries), providing internal security, and supporting the Ministry of Defense and Aviation as required; and the *Ministry of Interior* which is charged with internal security, police functions, and border protection.

Local manufacturing is limited, and its growth is linked to greater Saudi participation. Large defense contracts often require some sort of "offset" program, and growth in local production is likely to be tied to these offset requirements. Although new acquisitions of military equipment do not officially carry any offset requirements, recent experience shows that there will be some form of offset requirement associated with future major purchases. Offset generally requires that 30 percent of the value of the imported component of a major defense purchase be reinvested in commercially-viable businesses in the Kingdom. Some of the existing offset programs are proving to be difficult and cumbersome to implement, but others are going well. These programs include a U.S. program which materialized into the Boeing Industrial Technology Group along with five joint venture projects; the British Al-Yamamah II Program which is moving forward with a number of investments; and a French program which seems to have been delayed.

The United States, the United Kingdom, and France dominate the supply of arms and training to Saudi Arabia. However, U.K. and French arms suppliers do not yet have a significant presence in all branches of the Saudi armed forces. France has heavy influence in the Royal Saudi Naval Forces (RSNF), the Royal Saudi Air Defense Forces (RSADF), and the Ministry of Interior (MOI), having sold frigates to the RSNF, SAM missiles to the RSADF, and various personal weapons to the MOI. The U.K. influence has been most visible in the Royal Saudi Air Force (RSAF) following its acquisition of Tornadoes and Hawks in 1986 under the U.K. offset deal, Al-Yamamah I.

U.S. defense firms providing major systems or hardware to Saudi Arabia include:

- General Dynamics Land Systems -- MIA2 Main Battle Tanks
- McDonnell Douglas -- F-15S fighter aircraft
- Hughes -- Peace Shield II radar installations
- Raytheon -- Patriot missile systems
- United Defense/FMC -- Bradley Armored Fighting Vehicles.

Defense Opportunities

Budgetary constraints have reduced the Saudi government's ability to fund the purchase of equipment to meet pending requirements, although the situation could change if the budget outlook improves. At the moment, the best opportunities include maintenance, servicing, and training on newly-acquired weapons. Other potential opportunities are inherent in new weapons acquisitions, including logistic support and associated training and service programs. Notwithstanding, Saudi military officials continue to examine new equipment pending a turnaround in the economy. The Royal Saudi Air Force (RSAF) has a Technical Support Program including management, technical support, and training for the RSAF C-130 fleet as well as the RSAF F-5B/E/F fleet.

The Ministry of Defense and Aviation seeks to modify and/or sell the national carrier, SAUDIA, fleet of L-1011 Tristar aircraft. Modification is needed for approximately 17 L-1011 aircraft to either a hospital or airfreight configuration.

The Royal Saudi Land Forces are taking delivery of 400 Armored Fighting Vehicles from General Motors (Canada), 315 MIA2 tanks from General Dynamics and 200 Bradley Armored Personnel Carriers from FMC, all under the Foreign Military Sales (FMS) program of the U.S. government. The RSLF are also considering the purchase of 44 Search & Rescue version helicopters under a direct sale arrangement.

The RSAF is currently taking delivery of 72 F-15S fighter aircraft at the rate of 12 per year. In addition the RSAF is considering the purchase of six KC-130J tanker aircraft as a commercial deal. These sales will trigger more expenditures on servicing and maintenance as well as training for Saudi personnel. The Royal Saudi Air Defense Forces (RSADF) is expected to take delivery of an additional 12 PAC-2 Patriot missile units and has set aside the necessary funding for facilities construction.

Because of the shortfall in funding, some programs have been delayed. They include additional purchases of MIA2 tanks and AWACs aircraft, replacement of the C-130 and the F-5B/E/F fleets, and a naval modernization program.

The Ministry of Interior is acquiring items such as a border security surveillance and monitoring system and other security miscellaneous items including anti-riot water cannon vehicles, armored personnel carriers, and armored personal protection clothing as well as 4,000 four-wheel vehicles and 2,000 personal vehicles, all expected to be in 24 hour/day use.

Defense Procurement Process

Decisions regarding the procurement of major systems typically are made at the highest levels of the Saudi government. The Foreign Procurement department of the Saudi Ministry of Defense and Aviation oversees the details of the procurement of military systems and hardware.

Saudi regulations require foreign companies without local partners that obtain contracts with the Saudi government to appoint a Saudi service agent. As a general rule, most service agents do not undertake substantive tasks on behalf of the foreign company. The primary function of the service agent is to provide a vehicle for the foreign company to obtain the temporary commercial registration required to perform the project in the Kingdom and to assist with other administrative matters such as visas, work force recruitment, and housing.

A service agent may not be needed and no commission is required if the contract relates to "armaments or related services" or if a government-to-government, e.g. FMS, transaction is involved. Under such circumstances, the foreign company without a Saudi partner may file a statement with the Ministry of Commerce that the project is for armaments or related services and therefore, it does not have a Saudi agent. The Service Agents Regulation does not define the term "armaments and related services", and foreign businesses should consult legal advisors or the Saudi Ministry of Defense (MODA) when considering contracts which might involve armaments. Generally, the Ministry of Commerce takes a narrow view of what constitutes "armaments or related services".

Although U.S. major weapons contracts to the Kingdom are handled via FMS arrangements, many service contracts including C3 systems design and integration, maintenance and training on newly-acquired weapons, and upgrading of existing military hardware, present future potential opportunities for bidders on these supporting programs.

Saudi Government Contacts

The following is a list of contacts within the Ministry of Defense with procurement responsibilities:

- Ministry of Defense and Aviation
  Riyadh 11165, Saudi Arabia
  Tel: (966 1) 478-5900/9000 or 477-7313
  Tlx: 401188 MODA SJ

Contact: *Minister:* HRH Prince Sultan Bin Abdul Aziz Al-Saud
Acting RSAF Commander: MG Mohammad Al-Hennaidi; Tel.: 477-9051
Army Aviation Commander: BG Humood Al-Rashoodi; Ext. 3192
Foreign Procurement Department: MG Abdel Aziz A1-Hussain, Acting Director; Ext. 3117
Foreign Assistance & Cooperation Department: MG Mohammad Al-Amro, Director; Ext.3042/3044.
Peace Sun Project: Maj Ibrahim Muhammad al-Saghier (RSAF) Cpt Ali al-Kinani (RSAF); Ext. 4533
FMS Chief of Contracting: Col. Saad Al-Kathlan (RSAF), Acting; Ext. 4758

- Ministry of the Interior
  P.0. Box 3743
  Riyadh 11481, Saudi Arabia
  Tel: (966 1) 401-1111/1872/1860/1944
  Fax: (966 1) 403-3614
  Contact: *Minister:* HRH Prince Naif Bin Abdul Aziz Al Saud
  Coast Guard and Border Force: LTG Mo'jab Mohammad Al-Qahtani; Tel: (966-1) 402-0184; Fax: (966-I) 402-0222 Ext. 357
  Aviation: Col. Abdul Bari E. Tawfik, Director

- Saudi Arabian National Guard
  Riyadh 11173, Saudi Arabia
  Tel: (966 1) 491-2222; Fax: (966 1) 491-4429
  Contact: *Deputy Commander:* HRH Prince Badr Bin Abdul Aziz Al-Saud

Diversification and Commercial Opportunities

Despite the potential decreases in military spending, Saudi Arabia has maintained a strong economy which provides many business opportunities for U.S. firms. Discussed below are some the industry sectors that are good prospects for U.S. industry.

Air Conditioning and Refrigeration Equipment

Air conditioning and refrigeration equipment, including compressors, remains one of the most growth oriented markets in Saudi Arabia. Rapid population growth and a harsh climate combine to keep Saudi Arabia a lucrative market for this equipment.

After a downturn in 1995, the market is expected to pick up again in 1996, growing by an estimated 6 percent, from $913 million in 1995 to $975 million in 1996. That growth will mainly result from a 7 percent increase in imports, expected to reach $839 million in 1996. U.S. suppliers compete aggressively with Japanese manufacturers, but have maintained an average 23 percent share of the import market. Capacity at local factories will increase by about four

percent from $210 million in 1995 to $220 million in 1996, while about 38 percent of the local output is exported. In the refrigeration sector, there is ample and continuous need for cold storage facilities, both stationary and mobile.

Oil and Gas Equipment and Services

Saudi Arabia is the largest single producer of oil in the world, and industry estimates put Saudi reserves at one quarter of the world total. The oil and gas equipment and services market is large, estimated at about $1 billion, but it is undergoing a rapid contraction which is expected to continue throughout 1995. The market was expected to have dropped by 20 percent in 1995, from $1.1 billion in 1994 to $880 million in 1995. Pending higher oil prices in 1996 and beyond, the Saudi market is expected to recover somewhat in 1996, growing by more than two percent. U.S. suppliers still hold a substantial share, accounting for an average 45 percent of the market. Warehouse stocks are high and will be drawn down before new purchases are made. A few sizeable projects will go forward, however, and U.S. products are considered very competitive in high-technology areas.

Automotive Parts and Service Equipment

Although Saudi Arabia is the fifth largest world market for U.S. auto parts and equipment, and while Saudi per capita spending on automobiles is among the highest in the world, sales of new automobiles has declined in recent years. This trend will likely persist until 1996 when, according to some estimates, the Saudi economy is expected to recover following a slight increase in world oil prices.

On average, the Saudi market for automotive parts continued to grow by 5 percent annually, reaching $2.34 billion by 1996. Imports, which represent 82 percent of the market, increased by an average 6 percent annually, from $1.73 billion in 1994 to $1.85 billion in 1995, and may reach an estimated $1.94 billion in 1996. U.S. suppliers' share of the market is about 40 percent.

Local production consists mainly of fast-moving items, but is expected to become more varied as more licensing arrangements are made. Local production increased more than two percent, from $411 million in 1994 to $420 million in 1995, and should continue at that level in 1996. However, exports from local facilities are expected to remain flat at $20 million during 1995 and 1996, a slight increase from 1994.

Pumps, Valves, and Compressors

Imports of pumps, valves and compressors surged to record levels in the early 1990s due to a Saudi Aramco capacity expansion program, and low inventories in the aftermath of the Gulf War. Continued expansions and upgrading at refineries, petrochemical plants, power and desalination projects will keep the Saudi pump, valve and compressor market buoyant, growing

between 5-10 percent per annum over the next three to four years. Imports, which represent more than 98 percent of the market, are expected to grow 10 percent, reaching a high of $392.5 million in 1996.

Local production is minimal and has remained almost unchanged over the years at $5 million annually. This is expected to change as more pump, valve and compressor suppliers are established. New-to-market U.S. manufacturers of pumps and valves will find it hard to get prequalified by major purchasers such as Saudi Aramco over the next three years unless they are extremely competitive. The market for compressors is a little more open.

While new pump, valve and compressor equipment is of interest, replacement parts and upkeep of equipment offer major opportunities to U.S. firms. American companies already enjoy a 35 percent share of the market mainly competing with Italian, British, German, and Japanese suppliers. In order to gain a greater market share, U.S. firms need to focus on providing service, upkeep, and high quality products. Competitive pricing has become of major importance because of the country's economic downturn.

Computers and Peripherals

The Saudi market for computers and peripherals remains buoyant. Various Saudi organizations, both public and private, are revamping their systems and downsizing, while at the same time, upgrading their computer equipment. The market was approximately $220 million in 1994, increasing by an average two percent annually, and is expected to reach $229 million by 1996.

IBM-compatible manufacturers in the Far East supply about 40 percent of the market, followed by U.S. suppliers at 36 percent. Computer utilization is on the rise and the replacement market for upgraded and higher capacity machines is also growing. Saudi businesses and government agencies are shifting away from mainframes and mid-range computers to more flexible, faster, and cheaper micro computers or PC's in a networking environment. One industry study estimated that there are more than 400,000 personal computers in the Kingdom.

Computer Software

Beginning in July 1994, the Saudi government started enforcing its copyright law. Since then, sales of computer software have expanded at the rate of 10 percent annually, and will be expected to keep the same pace over the next three years despite prevailing recessionary pressures.

The market is totally dependent on imports, except for some domestic and other third-party custom-made software. In 1994, the market was estimated at $300 million which is expected to increase to $330 million and $365 million in 1995 and 1996, respectively. U.S. software companies dominate the market, accounting for more than 70 percent. Their share will

grow even further, especially for open architecture software packages. There is also strong demand for customized software.

Mining Industry Equipment

While petroleum is by far Saudi Arabia's most important resource, the mining industry is becoming its second most valuable source of export revenue. The Directorate General of Mineral Resources (DGMR) is actively seeking international investors to establish mining joint ventures, providing consulting, equity, and technical know-how for major mining projects Kingdom wide.

The DGMR has listed more than 64 mines throughout the Kingdom for private sector investment. Three of these mines are already being tendered out for private sector investment valued at about $2.3 billion. Investment in the mining sector will have a beneficial influence on the market for items such as machinery, engineering services, materials handling equipment, power generation, and safety and security equipment. Benefits to foreign investors include tax exemption for five years and a 30 year extraction concession. No statistical data is available since any mining project will be implemented on a turnkey basis, including consulting, design and engineering, machinery, extraction, and shipping.

Chemical Production Equipment

The private sector will be expected to take the lead in spearheading further investments in the downstream petrochemical industries. Major expansion work at the IS plants belonging to the Saudi Arabian Basic Industries Corporation (SABIC) is either complete or being implemented. At the peak of its expansion program, the petrochemical industry spent about $1.3 billion in 1994 on related equipment, machinery, and instruments. That figure was expected to drop by almost four percent in 1995 and recorded zero growth in 1996. Local production accounted for an average 16 percent of the market.

Since many of these plants are awarded on a Lump-Sum-turnkey basis, many U.S. firms will be expected to provide licensing and process engineering technology. Currently, U.S. firms providing process engineering and licensing arrangements represent more than 25 percent of this market.

Operations and Maintenance Services

Harsh climate, limited technical expertise, and industrial expansion create a high demand for operations and maintenance services in the Kingdom. Every capital project brings with it a maintenance component, especially for electrical and mechanical engineering contracts. Demand for specialized operations and maintenance services is especially high in sectors dependent on high tech equipment and instruments. Saudi Arabia has a well developed oil and petrochemical industry, and preventive maintenance in those areas conform with world standards.

The current economic situation, which has slowed down capital investment in plants and equipment, has also boosted the need to preserve and maintain existing infrastructure and capital projects pending more prosperous times. By 1996, the Saudi market for operations and maintenance services should reach $4.9 billion, approximately 80 percent of which will be handled by either foreign companies and/or Saudi-foreign joint ventures. U.S. companies have the lead in this market and their share is estimated at 64 percent. U.S. participation in this sector is expected to grow by 4 percent annually over the next several years, one percentage point more than the growth for the whole sector.

Local companies, however, will be expected to gain more expertise in this sector, and their share, currently estimated at 4.5 percent, will grow at an increasing rate over the next three years. Until oil prices surge again, many projects will be delayed and/or canceled, thus escalating the need for maintenance services on existing projects.

Doing Business in Saudi Arabia

Only Saudi nationals are permitted to engage in trading activities. All industrial enterprises are open to non-Saudis, and they can also trade in the products they manufacture. Non-Saudis are not permitted to register as commercial agents.

The Saudi Arabian Monetary Agency (SAMA) is the Saudi central bank. It regulates and controls the Saudi banking sector. Financing is available to both Saudi and non-Saudi entities. Offshore banking and trust operations do not exist in Saudi Arabia and there is no legislation that permits the establishment of these operations.

The securities market is still not highly developed. Banks are the sole entities that may act as stockbrokers for publicly traded shares or for joint stock companies. Only Gulf Cooperation Council (GCC) nationals -- Saudi Arabia, Kuwait, Qatar, Bahrain, Oman, and the United Arab Emirates -- are permitted to buy and trade shares in Saudi companies.

Saudi Arabia has a number of trade barriers, mainly regulatory and bureaucratic practices, which restrict the level of trade. Among these are:

Commercial Disputes Settlement

Saudi Arabia has signed the New York Convention on the Arbitration of Commercial Disputes. This is an encouraging step, but arbitration has yet to be tested in practice. Government agencies are not allowed to agree to international arbitration without the concurrence of the Council of Ministers.

Business Visas

All visitors to Saudi Arabia must have a Saudi sponsor in order to obtain a business visa to enter Saudi Arabia. The Saudi who agrees to act as a sponsor accepts certain legal obligations including personal liability for the actions of the visitor. Therefore, a Saudi rarely assumes sponsorship unless he has a personal interest in the proposed visit. In practice, this makes it very difficult for American business people to travel to Saudi Arabia to investigate the market or to select a local representative without incurring some type of obligation to his sponsor, i.e. right of first refusal on any business opportunity developed. Although the process of obtaining a visa has been streamlined, American citizens of Arab descent and women continue to have difficulties in procuring business visas, even when they have a sponsor.

Delayed Payments

This is a major concern for U.S. firms in the Kingdom. In the current recession, some Saudi government agencies have delayed payments from 6 to 15 months. Lengthy payment delays, especially from government ministries and agencies, have long been a disincentive to doing business in the Kingdom. This issue stems partly from a traditional Saudi reliance on slow payments in order to manage cash flow, and partly from a bureaucratic reluctance to make final payments. Companies should check with the U.S. Embassy or Consulates for the current arrearage situation.

Due to accounting procedures used by the Saudi government, the Department of Income Tax will impose taxes even on payments which have not been received, arguing that the fact of non-payment is essentially immaterial in the tax liability determination process. Given the Saudi government's current fiscal position, this problem is likely to continue during 1995.

Intellectual Property Protection

The Saudi legal system protects and facilitates acquisition and disposition of all property rights, including intellectual property. The Saudi government has acceded to the Universal Copyright Convention. Implementation began on July 13, 1994.

Saudi Arabia has had a Patent Law since 1989 and the Patent Office accepts applications; so far two patents have been issued. Protection is available for product and product-by-process. Product-by-process protection is extended to pharmaceuticals. There are provisions in the Patent Law for compulsory licenses for non-working and dependent patents. The term of protection is 15 years and the patent holder may apply for a five year extension.

Although Saudi copyright law does not extend protection to works first displayed outside of Saudi Arabia unless the author is a Saudi citizen, the Government maintains that its adherence to the Universal Copyright Convention is sufficient to extend protection to foreign works. The Saudi Government has taken actions to enforce copyrights of U.S. firms and pirated material has

been seized or forced off the shelves of a number of stores. Overall, however, piracy remains a problem.

Trademarks are protected under the Trademark Law. Although trade secrets are not specifically protected under Saudi law, they are often protected by contract. There is no specific protection for semiconductor chip layout design; it would be protected under the Patent Law and the Copyright Law.

Arab League Boycott

The GCC announced in the Fall of 1994 that its members would no longer enforce the Secondary and Tertiary aspects of the Arab League Boycott. The Primary Boycott against Israeli companies and products still applies.

Advice on boycott and antiboycott related matters is available from the U.S. Embassy or from the Office of Antiboycott Compliance, U.S. Department of Commerce, Washington, D.C. at tel. (202) 482-2381.

Protective Tariffs and Non-Tariff Trade Barriers

Saudi tariff protection is generally moderate, but has increased over the years. A number of Saudi "infant industries" now enjoy 20 percent tariff protection as opposed to the general rate of 12 percent. Saudi non-tariff barriers also are increasing.

Such barriers include:

- Preferences for national and GCC products in government procurement;
- 30 percent of contract value "set-aside" for local contractors on major government projects;
- A requirement that foreign contractors obtain their imported goods and services exclusively through Saudi agents;
- A reservation of services such as insurance and air transport for government-owned companies; and
- An economic offset requirement mandating reinvestment of a portion of contract value in indigenous industries for certain high value government contracts, particularly in defense.

All merchandise moving through Saudi customs ports is appraised by the Department of Customs of the Ministry of Finance. Import valuation is primarily used for collection of import

duties and often does not reflect the actual transaction value. Saudi customs valuation procedures are not GATT-consistent, nor are they based on invoice value. For statistical purposes, the valuation of imported merchandise is the CIF value. The value of exported merchandise is based on free-on-board valuation (FOB). The Saudi tariff nomenclature is consistent with the Harmonized System.

The following documents are required for importing goods into Saudi Arabia:

- A notarized certificate of origin authenticated at a Saudi diplomatic mission and local chamber of commerce or U.S.- Arab Chamber;

- A similarly authenticated invoice (in triplicate) which must state the country of origin, name of the carrier, brand and number of goods, and description of the goods including weight and value;

- A clean bill of lading;

- Documents indicating compliance with health regulations (if applicable);

- Insurance documents if shipments are sent C.I.F. The original documents must be accompanied by an Arabic translation;

- A Saudi Arabian Standards Organization certificate (if applicable); and

- A Radiation Certificate (if applicable).

The Saudi Arabian Standards Organization (SASO) is actively pursuing the promulgation of over 1000 Kingdom draft standards including the GCC countries. The development of product standards inconsistent with those in the U.S. has been a significant barrier to U.S. exports to the Kingdom, blocking sales of an estimated $100 million to $500 million in previous years.

A Standards Program Director has been assigned to SASO from the U.S. Department of Commerce's National Institute of Standards and Technology (NIST) to advise the Saudi government in developing standards and work to insure that new standards are not inconsistent with those in the U.S. New draft standards are forwarded to U.S. industry associations for comment and recommendations before finalization by SASO. Other developed nations have similar programs. The U.S. Standards advisor can be reached by fax at (966 1) 488-3237.

In November 1995, the SASO, in cooperation with the Ministry of Commerce, issued new guidelines to control the quality of certain products imported into Saudi Arabia. The new program, the International Conformity Certification Program (ICCP), will apply to 76 regulated products as a first phase. The new ICCP program requires certificates to be issued by one of

SASO's 13 appointed laboratories in the U.S. for compliance to either SASO or internationally recognized standards. In either case, the issuance of certificates must be obtained through Inchcape Testing Services at:

SASO Program Manager
Inchcape Testing Services
3741 Red Bluff Road
Pasadena, TX 77503
Telephone: (713) 475-2082
Fax: (713) 475-2083

This program is under constant revision and complete details and costs have not been finalized.

U.S. Government Points of Contact

The following is a list of contacts for U.S. firms interested in the Saudi Arabian market.

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Assistant Commercial Attaches: Erik Hunt and Benjamin Watson
Standards Advisor: Edward Wunder

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Agricultural Trade Officer

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Counselor for Economic Affairs

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Defense Attache

Political/Military Office
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Fax: (966 1) 488-7360
Contact: Thomas Callow
Political/Military Counselor

U.S. Consulate General

U.S. Commercial Service - Dhahran
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Contact: The Commercial Section

U.S. Commercial Service - Jeddah
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Contact: Joseph Kaessaeffer
Principal Commercial Officer

UNITED ARAB EMIRATES

UNITED ARAB EMIRATES (UAE)

Overview

The United Arab Emirates (UAE) is a federation of seven emirates located on the Arabian Peninsula. The UAE has coastline and seaports inside as well as outside the Strait of Hormuz, which is the entrance to the Persian Gulf. The seven emirates are Abu Dhabi, Dubai, Sharjah, Ajman, Umm Al Qaiwain, Fujairah, and Ras Al Khaimah. Each emirate is ruled by a Shaikh. The total area of the UAE is about the size of Maine.

A high degree of political and economic power resides in the individual emirates. Each Shaikh retains control over natural resources, including oil, within his emirate, and regulates commercial activity. Because hydrocarbon reserves, and thus revenues, are not equally distributed, the seven emirates are not equal in terms of wealth, power, or level of economic development. Abu Dhabi, the largest oil producer, is the wealthiest and most powerful, followed by Dubai, the federation's commercial center and second largest oil producer.

Gross Domestic Product (GDP), dependent on oil prices, has followed a roller coaster pattern, soaring during the 1970's and declining precipitously during the 1980's. These swings in income have caused the authorities to look for ways to diversify the economy, particularly in Dubai, where oil production is declining and in Abu Dhabi through the implementation of a military related offset investment program. The search for diversification has been only partially successful, however. Oil revenues provided 80 percent of fiscal revenue and about 60 percent of export earnings during 1994. Inflation in 1994 was at 4.6 percent, a slight decline from 1993.

Economic analysis in the UAE is difficult because the federal and emirate governments and their semi-autonomous entities do not publish comprehensive, accurate statistics in a timely manner. Similarly, private sector institutions, including banks and foreign oil companies, are not allowed to disseminate statistics to the public. Information on oil and gas production, pricing, overseas investments, and government budgets is only available from external sources.

Strategically located on the Arabian/Persian Gulf, the UAE is an entrepot of huge trade volume between the Far East, the European Community and the Arab Gulf Cooperation Council Countries (AGCC - UAE, Saudi Arabia, Oman, Kuwait, Qatar and Bahrain), Iran and the sub-continent countries Pakistan, India, Bangladesh and Sri Lanka. The annual import and export trade volume surpasses US$15 billion. The UAE is the second largest middle east importer of US goods and services after Saudi Arabia. In 1995, the U.S. non-military exports to the UAE was expected to reach US$2 billion.

Defense Industry Environment

The United States and the United Arab Emirates have enjoyed close ties since diplomatic relations were established in 1971.

Like other neighboring countries, the UAE does not announce its defense budget nor its long term defense procurement requirements. Most of the defense purchases are either made on an ad hoc basis or private invitation to tender. The UAE's spending on defense procurement roughly constitutes 10 to 15 percent of its annual operating budget ($4.3 billion) or an average of 5 percent of its GDP which in turn is directly dominated by earnings from oil and gas.

The UAE is not indifferent to the rising military threats in the region. The ten year war between Iran and Iraq followed by Iraqi's 1990 invasion of Kuwait and the resulting "Desert Storm" expulsion of Iraqi forces from Kuwait, and Iran's occupation of UAE's three coastal islands Greater Tomb, Lesser Tomb, and Abu Musa, are critical factors influencing the UAE's desire to equip its Armed Forces with the latest defense technologies. The UAE is determined to safeguard its territorial integrity, security, and sovereignty and be equipped to face any unforeseen military threat.

Shaikh Zayed Bin Sultan Al-Nahyan, Ruler of Abu Dhabi Emirate is the President of the UAE and Supreme Commander of the UAE's Armed Forces. Shaikh Khalifa Bin Zayed Al-Nahyan, Crown Prince of Abu Dhabi is the Deputy Supreme Commander.

The UAE's external military threats are to be defended against by the Federal UAE Armed Forces/General Headquarters (GHQ) based in Abu Dhabi and which includes all other emirates (Sharjah, Ajman, Ras Al-Khaimah, Umm Al Quwain and Fujairah) and the Central Military Command (CMC) located in Dubai.

The CMC is controlled by the Government of Dubai and its commander is Brigadier General Shaikh Ahmed Bin Rashid Al-Maktoum. The major three components of CMC are the Staff Unit, Air Force and Ground Forces. There is no Naval element in CMC.

The Ministry of Defense is largely a political entity headquartered in Dubai and headed by Lt. General Shaikh Mohammed Bin Rashid Al-Maktoum as Minister of Defense, who is also the Crown Prince of the Emirate of Dubai.

The UAE Armed Forces/General Headquarters (GHQ) is the largest military entity comprising the Army, Navy and Air Force. Its Chief of Staff is Lt. General Shaikh Mohammed Bin Zayed Al-Nahyan, son of the UAE's President and Ruler of Abu Dhabi.

The UAE Armed Forces/General Headquarters (GHQ) and the Central Military Command (CMC) are the only two principal entities in the United Arab Emirates engaged in the

procurement of military equipment. Practically speaking, the GHQ in Abu Dhabi is the only entity with which U.S. defense firms can do business.

Under current USG policy, Foreign Military Sales (FMS) and commercial sales of items on the munitions control list may take place only between federal governments. Should the Emirate of Dubai's CMC wish to purchase USG munitions-controlled items, the transaction would be required to pass through the Ministry of Foreign Affairs and be approved by the UAE Armed Forces/General Headquarters (GHQ).

Dubai's CMC has little if any U.S. military equipment. Indeed, CMC's leadership resents USG Munitions Control policies, and are generally inclined to source military equipment purchases elsewhere. Many other sovereign states engaged in arms sales deal directly with Dubai. For the record, CMC usually purchases military equipment through local agents - and has no offsets program such as exists in Abu Dhabi.

Based on Embassy estimates and demographics of UAE population dominated by Arabs and non-Arabs, the combined UAE Armed Forces including that of CMC does not exceed 35,000 active members, of which over 10,000 members belong to various Arab countries, especially Egypt, Oman and Sudan and to some degree Pakistan. Most of the senior advisors to the Armed Forces are from the U.K. followed by the United States, France and Germany.

Indigenous production of military equipment is so far confined to only military uniforms through UAE's Offsets programs. Future military purchases must be accompanied by offsets proposals on economically viable projects in joint venture with local businessmen.

The manufacturing of military equipment and/or its components is forbidden under the UAE's Offsets program which is relatively new (est.1991). However, assembly of certain items of a non-lethal nature in association with a commercial enterprise or existing government entity is allowed.

The offset projects are directed largely towards reinvestment in the Emirate of Abu Dhabi alone and in a few sectors excluding petrochemicals, water, electricity, and other utilities. So far, U.S. defense contractors involved in real offset projects are McDonnell Douglas, Lockheed Martin and Newport News Shipbuilding.

The major supplier of military equipment to the UAE is France (as much as 90%), followed by the United States, United Kingdom, and Italy. Germany, Russia, and Brazil are making in-roads in addition to the Czech Republic, Hungary, Romania, and Indonesia. France has a defense agreement with the UAE, and significantly dominates UAE's Air Force and Air Defense market. Soon after the Gulf War, GIAT of France sold US$3.5 billion worth of LeClerc battle tanks against its U.S. rival General Dynamics. The U.K., a traditional trade partner, dominates the military electronics and systems integration market within the Armed Forces.

Major US defense contractors currently supplying military equipment and services to the UAE Armed Forces or pursuing future contracts include:

- AT&T
- United Defense/FMC
- General Electric Aircraft Engines
- Hughes Communications
- ITT Defense Systems-Night Vision Cameras
- Lockheed Martin-F-16 fighter aircraft
- McDonnell Douglas-F15 fighter aircraft/Apache Helicopters
- Newport News Shipbuilding
- Northern Telecom
- Oshkosh Trucks-Tactical trucks
- Raytheon-Patriot Missile systems
- United Technologies Pratt & Whitney Div.
- United Technologies Sikorsky Aircraft Div.
- Westinghouse-C3 (Command, Control and Communication)

Defense Opportunities

In line with the guidelines of the UAE President, the UAE Armed Forces is keen to acquire state-of the-art defense equipment for its Army, Navy and Air Force. Major military contracts are awarded on political grounds, price, and technological factors. Procurement decisions may take several years before any contract is awarded. The UAE has had no funding problems for its military purchases. Delays in awards of contracts are attributed to such factors in technical evaluations as compliance to UAE Offsets Group (UOG) requirements, R&D, technical superiority, and whether the manufacturing country is willing to release the sophisticated components and data.

At present, the UAE Government is seriously considering the purchase of the following military hardware for which RFPs were invited as long ago as in 1990:

Air Force Procurement

60-80 Multirole Fighter Aircraft
Cost: US$8 billion
U.S. Contenders: McDonnell-Douglas F-15, and Lockheed Martin F-16
Competition: French Mirage 2000-5 and Rafael, Sukhoi 35 of Russia.
Status: UAE is likely to make a selection decision during December 1995 or early 1996.

Tactical Ballistic Missile Air Defense System
Cost: US$1 billion

U.S. Contender: Raytheon's Patriot (FMS)
Competition: Russia: SA-10/SA 12 and France: Thomson CSF (Aster/Arabel).
Status: Project involves 10 Patriot Fire Units and 530 Patriot missiles.

Long Range Radars
Cost: US$100 million
U.S. Contenders: Lockheed Martin and Westinghouse
Competition: GEC Marconi, Thomson-CSF

Status: No decision made. The UAE Air Force Technical Committee members have visited the sites of all the firms and attended detailed demonstrations. Project is over 4 years old. In anticipation of winning the contract and expressing its commitment to the market, Lockheed Martin has already embarked on its US$ 12 million pre-offset project in Abu Dhabi, The Gulf Diagnostic Center, in joint venture with a local firm.

Army Procurement

EADGE Project - Supply of PBX Equipment
Cost: US$15-25 million
U.S. contenders: Northern Telecom and AT&T
Competition: Alcatel (France).

Navy Procurement

4 Navy Frigates
Cost: US$1-2 billion
U.S. Contender: Newport News Shipbuilding
Competition: Royal Schuelds (Dutch), Vosper-Thornycroft (British), DCNI (French) and Leurson (German)
Status: No decision made. However, in July 1995, an Amiri Decree was issued formally establishing the Newport News Shipbuilding offset joint venture company with Abu Dhabi Drydock called The Abu Dhabi Shipbuilding Company. This joint stock company will manufacture vessels and provide maintenance services to existing vessels. This US$19.7 million joint venture (49% Newport News 51% / Abu Dhabi Dry Dock) has recently offered its shares.

6 Maritime Patrol Aircraft (MPA)
Cost: US$500-1 billion
U.S. Contender: Lockheed Martin P-3C Orion (FMS)
Competition: Dutch: Fokker-50, Indonesian IPTN: CN-235 under license from Spain's CASA, and French Atlantique (new entrant)
Status: No decision made. According to the UAE sources, the P-3 Orion is undoubtedly the technically superior aircraft but it is considered more expensive than the competition and a larger

MPA aircraft which exceeds the UAE maritime requirement. Fokker is reportedly offering the aircraft free as part of the Frigate sale package.

Ministry of Interior Procurement

8 Armored Personnel Vehicles (APV)
Cost: US$4 million
U.S. Contender: Textron Marine & Land Systems
Status: The Ministry is holding the contract award pending UAE Armed Forces approval for financing 7 additional vehicles and necessary budget appropriation.

The Ministry or Interior is also negotiating with companies on the purchase of coastal radars and other boarder security surveillance equipment to control drugs trafficking and illegal entry to the country.

UAE Military Contacts

The following is a list of helpful in-country military contacts.

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Defense Procurement Process

The Directorate General of Purchasing at the UAE Armed Forces/General Headquarters in Abu Dhabi is the combined central purchasing organ within the UAE Armed Forces in Abu Dhabi. This organization is responsible for the pre-qualification of defense contractors/suppliers and placing final procurement orders on behalf of the UAE Armed Forces at the request of the Air Force, Navy and Army. The Directorate also oversees the preparation of tender documents and monitoring all legal aspects and contractual obligations.

The Army, Navy and Air Force are independently responsible for conducting technical evaluations of the desired equipment and services, and making final recommendations to the Chief of Staff. Normally, for every sizeable procurement, a technical committee is formed to assist the head of the agency. The head of the agency makes his final recommendations to the Chief of Staff, who in turn is the final decision maker in UAE's military procurement.

The regulations of the UAE Armed Forces/General Headquarters (GHQ) in Abu Dhabi prohibit the use of middlemen, commission agents, mediators, etc. in any transaction involving the purchase of lethal weapons. In addition, all foreign vendors interested in pursuing a project in excess of US$ 10 million are required to submit a proposal outlining an offset joint venture project which must be (a) economically viable; and (b) in participation with a local firm for the purpose of reinvestment; a portion of its contract proceeds which will generate over a period of seven years profits of at least 60 percent of the contract value. An offset project can be a pre-offset project in that a firm may wish to show its commitments to the market by establishing an offset venture prior to winning a military supply contract. All offsets related matters including the approval of projects must be approved by the UAE Offset Group (UOG) in advance.

In spite of protestations to U.S. firms from prospective agents brandishing "No Objection" letters from GHQ, the use of agents for non-lethal military equipment transactions is a grey area. GHQ now appears to strongly proscribe middlemen in non-lethal military equipment procurement, particularly if large sums of money are involved.

Foreign commercial bidders, including some U.S. companies, often try to ensure success even before receiving an RFP (Request for Proposal) from GHQ by contacting a local individual believed to have influence and promising him ancillary business if they win the contract. The Embassy advises against this practice. We advise U.S. defense firms to submit (RFPs) directly to GHQ and if successful, the U.S. firm can then take steps to establish a legal presence. Firms supplying highly lethal based equipment will be sponsored directly by the UAE Armed Forces/GHQ.

U.S. firms wishing to do business with the UAE's Armed Forces, GHQ, must register their interest with the Directorate General of Purchasing of the GHQ. Only pre-qualified lists of registered firms will be invited to respond to Requests For Proposals (RFPs) or open tenders.

Central Military Command (CMC)

Contrary to Abu Dhabi's GHQ, the Central Military Command (CMC) in Dubai requires that all defense firms must have a local agent while pursuing leads for military sales. There is no offsets requirement by the CMC. The Ministry of Defense has no say in the defense procurement of the UAE and functions merely as a catalyst political entity. The Ministry of Interior requires that all suppliers must be pre-registered with it and should submit bids/proposals through locally appointed agents.

Diversification/Commercial Opportunities

The following industry sectors are deemed as good prospects for U.S. firms interested in the U.A.E. market.

Architecture/Construction/Engineering Services

These services are facing increasing demand in Abu Dhabi and Dubai, less so in the Northern Emirates. The increase is based on UAE government agencies developing plans for the year 2010. In Abu Dhabi, the government has allocated one billion dollars for the construction of 1,666 high rise buildings and villas and a new ministries area to house federal government headquarters including mining services and petrochemical engineering services. Similarly, in Dubai the ACE related major projects include Chicago Beach Hotel, which will cost US$327 million, and expansion of Dubai international airport, valued at $200 million, for which International Bechtel is the consultant. U.S. firms such as Alliance Architects, Hellmut, Obata & Kassabaum, MMM, Turner Construction, and J.A. Construction are new entrants to the UAE market.

Government laws call for pre-registration and pre-qualification for any government design or construction project. Strong competition comes from local, European, Korean and Canadian firms. Of the $1.2 billion ACE market in 1994, U.S. market share was 25 percent or $300 million. There are no regulatory/demand issues affecting the market.

Oil and Gasfield Machinery and Services

The UAE claims to have nearly 100 billion barrels of proven oil reserves, or about 10 percent of total proven world oil reserves, most of it in the emirate of Abu Dhabi; and 5.7 trillion cubic meters of proven gas reserves, which amounts to 4.6 percent of total world proven gas reserves, most of it in Abu Dhabi, which makes the UAE the fourth largest gas reserve country in the world after Russia, Iran, and Qatar.

UAE oil production in mid-1995 is at the level of the UAE's OPEC quota, 2.16 million barrels per day (mmbd), with about 0.3 mmbd coming from Dubai and the rest from Abu Dhabi. Capacity is much higher. While Dubai produces at maximum capacity, Abu Dhabi is nearing completion of a $5.0 billion capacity expansion program that will take Abu Dhabi capacity to 2.5 mmbd by 1996.

Recently, the Supreme Petroleum Council approved several major projects, including the expansion of Ruwais refinery, valued at $1.5 billion. Fluor Daniel and Foster Wheeler were recently awarded the front-end Engineering Design and Project Management contracts respectively. Several U.S. firms are expected to compete for the Ruwais petrochemical complex estimated to cost $1.5 billion. U.S. contenders include Union Carbide, Philips Petroleum (against UK's British Petroleum), Japan's Mitsui Corp., and Canada's Novacor and Borealis. Of

$590 million imports in 1994, the U.S. market share was 48 percent or $283.2 million. There are no regulatory/demand issues affecting the market.

Construction Equipment

The construction industry is one of the most active sectors of the UAE economy. The government has earmarked $2 billion for the construction of new infrastructure projects and government, commercial, and residential buildings in 1995. In addition, new investment by the private sector for commercial and residential construction during 1995/1996 is expected to reach $1 billion. Of $318 million imports in 1994 of heavy construction machinery, road construction machinery and earth moving machinery, the U.S. market share was 57 percent or $184.4 million. Potential growth for U.S. exports within this industry sector is 17 percent annually.

Air-conditioning & Refrigeration

The combination of a booming construction sector, high population growth and harsh climatic conditions make the UAE an excellent market for air-conditioning and refrigeration equipment. Total new investment by the private sector alone in office/residential construction during 1996 is expected to reach two billion dollars.

The U.S. and Japan together supply over 50 percent of the UAE import market. During 1994/1995, the U.S. became the leading supplier of air-conditioning and refrigeration equipment to the UAE. The key factor that boosted the demand for U.S. made products is the relatively weak position of the U.S. Dollar against the Japanese Yen. Of $247 million imports, the U.S. share of the market was 43 percent. The most promising imports were of central air-conditioning, window air-conditioning, split air-conditioning, and cold storage equipment. Potential growth for U.S. exports in this industry is over 28 percent.

Computers/Peripherals

Computer utilization is on the rise with current computer users moving towards upgraded and higher capacity computers. Government offices and businesses are shifting from mainframes to more flexible, faster, and cheaper micro computers or personal computers in networking environments.

U.S. computer manufacturers are looked upon as market leaders and will maintain their edge to the extent that they continue to be able to introduce state-of-the-art technology and products at competitive prices. Major competitors within this industry sector are Japan, U.K., Netherlands, Taiwan, and Singapore.

Telecommunications

The Emirates Telecommunications Corp. (ETISALAT) is the local PTT of the UAE. During the next two years, ETISALAT plans to invest an average of $300 million per year in the procurement & expansion of telecommunication services. In addition they have appointed a German consultant to prepare a feasibility study for the purchase of two satellites. The project is expected to cost $250-300 million. U.S. companies face strong competition from Japanese, British and French companies in this growing market.

Electric Power Systems

UAE power demand is projected to increase to 6,900 MW by 1999, up sharply from 4,200 MW in 1994. Electricity consumption is rising 15-20 percent annually. Existing expansion plans include the expansion of Taweelah "A", the final phase "C" of the Abu Dhabi Taweelah Power/Water Desalination plant, calling for additional power generation of 400 MW and water desalination production capacity of 40 mgpd. Taweelah "C" is reported to be planned for implementation in 1996. Dubai Electricity and Water Authority is constructing a $273 million 600MW power station at Al-Awir. Major competitors include ABB, Siemens, Ansaldo, Mitsubishi, John Brown, Nuova Pignoni and SAE Sadelmi. There are currently no regulatory or demand issues affecting the market.

Security & Safety Equipment

The combination of the Abu Dhabi government allocation of $1 billion in the construction sector together with the development of a new complex to house federal government headquarters will result in a higher demand for safety and security equipment. Similarly, the development of additional hotels by Dubai's Commerce and Tourism Promotion Board should present opportunities for access control and fire and smoke detection equipment. The majority of the UAE's 58 banks offer ATM services and are required by the UAE Central Bank to provide maximum security alert equipment which increased overall demand for these products. The UAE Government wants to provide safeguards to its industrial installations, airports, petrochemical plants, industrial zones, and marine surveillance. Of $135 million imports in 1994, the U.S. market share was 24 percent or $32.4 million. Opportunities in this field alone represent more than $15 million annually.

Medical Equipment

The Ministry of Health's budget for 1996 is estimated at $600 million. During the next two years, approximately $400 million will be spent on construction and procurement of equipment for several clinics and hospitals. Major imports from the U.S. continues to be diagnostic, therapeutic, and patient monitoring equipment as they are perceived as sources of new and high technology. Of $94 million imports during 1995, the U.S. market share was 20 percent or $22.6 million.

Airport/Ground Support Equipment

There are six international airports and two military bases in the UAE. Some of these airports are planned for expansion during 1996/1998. Abu Dhabi Public Works Department (PWD) has pre-qualified turnkey contractors for the construction of an additional runway at Abu Dhabi International Airport and construction of a VIP lounge and three hangers for Amiri (Royal) Flights Directorate. These projects in Abu Dhabi will cost well over $150 million. The winning contractor will be responsible for supplying the necessary airport ground support equipment.

Dubai's Civil Aviation Department has selected Int'l Bechtel, Inc. of the U.S. as consultant for the construction of a new passenger terminal building to accommodate 22 aircraft. Contractors for this $100 million project are expected to be invited to bid by early 1996. Other plans in Dubai include construction of a new airport in Dubai to support the bi-annual Dubai Air show event, and construction of a hanger to house Royal Flight B-747 at a cost of $110 million.

Pollution Control Equipment

Although the environmental control industry is only at its infancy, protection of the local environment has drawn the attention of various UAE government authorities. In 1993, the UAE formed the new Federal Environmental Agency (FEA). It will have the power to draft, carry out studies, and propose general environmental policies in the country.

The principal areas of pollution which are of most concern in the UAE are the inadequate handling and recycling of solid waste, treatment of hazardous waste, and upgrading the standards of government hospital incinerators. In addition, the UAE is facing problems with the salination and fast depletion of its underground water supplies. Therefore, the government has been focusing on reusing sewage water for irrigation to meet the increasing demand for water. Priority has been given to sewage and rain water drainage projects and landfills that use modern technology.

U.S. manufacturers of pollution control equipment have competitive advantages over third-country suppliers in the UAE market since their equipment is designed to meet U.S. EPA requirements which are accepted internationally. Potential growth for U.S. exports is over 18%.

Doing Business in the United Arab Emirates

The UAE market provides a wide variety of business opportunities for U.S. firms. However, barriers to trade do exist and the section below describes the types of obstacles that U.S. companies may face in this market.

Offsets

The Abu Dhabi authorities in 1991 instituted an offset program. Under this program, defense contractors are required to invest an amount equal to 60 percent of their contract in the UAE. The terms of investment and amount are subject to negotiation with the UAE offset office, which must approve each investment project. The projects must show a profit after seven years. The contractor may not own more than 49 percent of the project. The remaining 51 percent must be held by UAE nationals. The program has so far resulted in over 30 projects, and it is not clear whether they will show the required profit. Meanwhile, a large backlog of offset obligations has accumulated, as the UAE armed forces continues to make purchases. Principal problems associated with the program are: a dearth of investment opportunities, with so much of the economy off limits to private foreign investment; difficulty in finding UAE national partners for the majority 51 percent; and difficulty in obtaining cooperation from emirate and federal bureaucracies for required permits, licenses, and other documentation needed to establish any new project.

No offsets investments in the oil, gas, petrochemicals and other utilities sectors such as power and water are being accepted by Abu Dhabi authorities, although these are the sectors in which there is the most interest on the part of potential foreign offsets investors.

National Treatment

The regulatory and legal framework favors local over foreign investors. There is no national treatment for investors in the UAE. Except for companies located in the free zones, at least 51 percent of a business establishment must be owned by a UAE national. A business engaged in importing and distributing a product must be either a 100 percent UAE owned agency/distributorship or a 51 percent (UAE) - 49 percent (foreign) limited liability company (LLC). Subsidies for manufacturing firms are only available to those with at least a 51 percent local ownership. Foreigners cannot own land or buy stocks.

Privatization

There is no privatization program in operation in the UAE. Although the authorities have discussed the possibility of offering shares (to UAE nationals only) in nine businesses owned by the Abu Dhabi General Industries Corporation (GIC), a bank partly owned and a retail gasoline distribution chain wholly owned by the federal Ministry of Finance, and a poultry and dairy farm owned by Abu Dhabi emirate, none of these entities has so far been privatized. The authorities first developed a plan to establish a stock market in the early 1980's, but as of June 1995, none had been established, although the Central Bank drafted a second plan for one in 1994.

Taxes

Foreign banks are required to pay a 20 percent income tax, although there is room to negotiate the actual payment of the tax. Domestic banks pay no income tax. No other foreign companies pay income taxes to the UAE government. Neither foreign nor UAE nationals pay individual income or property taxes in the UAE. There are no significant government financed and/or subsidized industrial research and development programs in the UAE.

Business Visas

Visas, residence permits, and work permits are required of all foreigners in the UAE. U.S. citizens receive ten year, multiple entry visas, authorizing stay up to six months per entry, with the possibility of a six month extension. The UAE nationals or enterprises who wish to sponsor foreign visitors agree to accept certain legal obligations.

The UAE Armed Forces/General Headquarters of the Army(GHQ), Ministry of Defense, and Central Military Command (CMC) also assist in sponsoring special nature visits by representatives of the defense contractors or foreign defense agencies. Depending on the nature of contracts, both permanent residence visas and actual sponsorship of foreign defense contractors can also be offered by the UAE's defense agencies, but a representative must seek the agency' permission prior to leaving the country.

Payments by Defense Agencies

The defense procurement agencies in the UAE follow their own payment procedures towards supply contracts. At least 25% of the amount is paid during the opening of an L/C, 25% is paid upon arrival of goods, 40% is paid upon installation, and 10% percent is withheld pending completion, hand over, and/or fulfillment of the entire contract. To the best of our knowledge, the UAE's defense agencies are good and prompt payers unless delays occurred from the supplier side.

Repatriation/Transfer of Funds

There are no restrictions on the transfer of funds into or out of the UAE, except that the currency of Israel may not be bought or sold in the UAE. All other currencies are traded freely at market determined rates. No license is required to change money. The UAE dirham has been pegged to the dollar at 3.671 dirhams per dollar since 1980. At present, there is a divergence of about 2.0 percentage points or more in U.S. and UAE inflation rates. Despite this, the authorities are under no pressure to adjust the peg.

Disputes Settlements

Military: All disputes arising in connection with military sales contracts or otherwise, and involving military agencies, if not amicably resolved between the parties, will be settled under the rules and regulations of conciliation and arbitration of the International Chamber of Commerce by one or more arbitrators appointed in accordance with the these rules. The arbitration will take place in Lausanne/Switzerland and the arbitrators have the powers of amiable compositeur. The decision of the Arbitrators shall be final, binding, and enforceable, on the parties.

Non-Military: There have been no significant investment disputes during the past few years involving U.S. or other foreign investors, but there have been several contractor disputes in the UAE. Most disputes have eventually been satisfactorily handled through arbitration. However, dispute resolution can be difficult and uncertain. Arbitration may commence by petition to the federal courts on the basis of mutual consent, a written arbitration agreement, independently by nomination of arbitrators, or through a referral to an appointing authority without recourse to judicial proceedings. Enforcing judgments has not always been easy. The UAE is a member of the international center for the settlement of investment disputes.

In 1993, the Abu Dhabi Chamber of Commerce and Industry formed the Abu Dhabi Commercial Conciliation and Arbitration Center in an effort to accelerate commercial dispute resolution. The Center is chaired by the president of the chamber, and the president of the chamber's customs and arbitration committee acts as the center's general secretary. The center has jurisdiction to conciliate or arbitrate commercial disputes. The Center's executive regulations govern its conciliation and arbitration procedure. Referral by two adverse parties of a dispute to the Center entails the parties acceptance of the finality of the Center's decision. The proceedings of the Center may be in Arabic or in any other language selected by the parties. The efficacy of the Center will depend in part on the willingness of local courts to grant rapid enforcement to the Center's awards.

The Dubai Chamber of Commerce and Industry promulgated commercial conciliation and arbitration rules last year which appear to be quite flexible, in the judgment of western legal experts. The rules permit parties to agree to have conciliation or arbitration under the auspices of the chamber but also under other rules.

Commercial disputes involving foreign parties tend to come before the civil courts. Major commercial disputes are ordinarily heard by a panel of three judges. All cases involving banks and financial institutions are required to be heard by the civil courts and not by shariah courts.

Intellectual Property Rights

In 1992, the UAE passed three laws protecting intellectual property: a copyright law, a trademark law, and a patent law. Implementation of the copyright law began in September 1994. As a result, pirate versions of western audio and video tapes are no longer present in the market. Unfortunately, legitimate versions of western video tapes are also largely absent from the market, as producers have hesitated to fill the vacuum left by the pirates.

In April 1995, the United States Trade Representative announced that he would maintain the UAE on the Special 301 Watch List for a fifth year. He cited incomplete enforcement of software copyrights and inadequate patent protection, particularly in the pharmaceutical area. The UAE was a major center for the production, sale, and export of pirated and counterfeit products. However, during the last two years the UAE government has passed new IPR laws and begun enforcement actions aimed at reducing or eliminating such practices, and bringing its IPR regime up to international standards.

The UAE has joined the General Agreement on Tariffs and Trade (GATT), and wants to become a member of the World Trade Organization. Membership in the GATT requires adherence to certain minimum standards of IPR protection, which should help sustain and expand the initiatives already taken. U.S. firms wanting to register their trademarks, copyrights, or patents in the UAE should contact local legal counsel for assistance.

Arab League Boycott

The Arab Gulf Cooperation Council (AGCC), which includes UAE, Saudi Arabia, Kuwait, Oman, Qatar, and Bahrain had announced in late 1994 that its members would no longer enforce the secondary and tertiary aspects of Arab league boycott. The Primary Boycott against Israeli companies and products is still in place. Any advice on boycott and anti-boycott related issues is available from the U.S. Embassy or from the U.S. Department of Commerce Office of Anti-boycott Compliance in Washington, D.C. at tel: 202-282-2381.

Tariffs and Non-tariff Barriers Including Import Taxes

Tariffs in the UAE were raised in mid 1995 from one percent to four percent in line with the unified Arab Gulf Cooperation council (AGCC) policy. Each emirate operates its own customs authority, but tariffs and general policies are coordinated through a national committee. Only firms with the appropriate trade license can engage in importation. Documentation requirements follow international standards, and delays in custom clearance have been infrequent. The competition for business between the port facilities of the different emirates has kept user rates to a minimum and put a premium on services. There are no duties on exports. For religious and security reasons, there are various restrictions on the import of alcohol, tobacco, firearms, and pork products. The UAE maintains non-tariff barriers to trade and investment in the form of restrictive agency/sponsorship/distributorship requirements.

In order to do business in the UAE outside of one of the free zones, a foreign business must have a UAE national sponsor, agent, or distributor. Once chosen, sponsors, agents, or distributors have exclusive rights; they cannot be replaced without their agreement. Government tendering is not conducted according to generally accepted international standards. Re-tendering is the norm, often as many as three or four times. To bid on federal projects, a supplier or contractor must either be a UAE national or a company in which at least 51 percent of the share capital is owned by UAE nationals. Federal tenders are required to be accompanied by a bid bond in the form of an unconditional bank guarantee for five percent of the value of the bid.

The UAE has no requirement that a portion of any government tender be subcontracted to local firms. There is a ten percent price preference on procurement and tenders. The UAE requires a company to be registered in order to be invited to receive government tender documents. To be registered, a company must have 51 percent UAE ownership. However, these rules do not apply on major project awards or defense contracts, where there is no local company able to provide the goods or services required.

Maximum duty in the UAE is 4 percent for most goods, with duties from 25 to 50 percent levied on alcohol and tobacco products. Many essential items, including foodstuffs and pharmaceuticals, are allowed duty free status.

Export Controls

All goods exported or reexported from the UAE must have proper documentation issued by the Ministry of Economy and Commerce and the various Chambers of Commerce in the respective individual emirates. U.S. firms seeking to export or reexport goods from the UAE should consult the appropriate legal authorities for specific guidelines.

Import/Export Documentation

Standard trade documentation, including certificates of origin, bills of lading, and various Government/Embassy attestations must be presented for all imports and exports. A Guide to Doing Business in the UAE which details documentation requirements, is available from all U.S. Department of Commerce District Offices, the Department in Washington, and the U.S. Commercial Offices in Abu Dhabi and Dubai.

Temporary Entry

Goods may be imported duty free and stored in any of several free zones in the UAE. Goods which enter the UAE from these free zones must pay the (minimal) duty noted previously. There is no provision for duty free entry of parts or components which are intended for the manufacturing of products which are subsequently exported. In practice, as duties are already so low, this has not been a major impediment to manufacturing industries in the UAE.

Standards

The UAE currently has no central standards authority. However, both the national and emirate governments, as well as professional associations, are reviewing standards requirements. This is particularly true for the construction industry. Currently, government agencies and private firms stipulate the standards required on a project-by-project basis. This allows for a wide range of acceptable product performance, makes health and safety monitoring difficult, and permits the use of low quality products and manipulation of tender specifications. A UAE company first qualified for ISO 9000 certification in 1993. Since then, more companies have received the designation, and the European Union is funding a standards center in the UAE to implement ISO 9000 certification.

U.S. Government Points of Contacts

Listed below are helpful points of contact for U.S. firms that are interested in the UAE market.

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Potential Offset Joint Venture Partners

Listed below are companies and/or organization that may be helpful in settling offset obligations.

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